

92-2243

A	ANALOGIC CORP	10Q	01-31-92
B	API ENTERPRISES INC	QA	02-29-92
C	APPLIED SOLAR ENERGY CORP	QA	01-25-92
D	BANPONCE CORP	10Q	03-31-92
E	ILIO INC	10Q	01-31-92
F	ISIS PHARMACEUTICALS INC	QA	03-31-92
G	KEITH GROUP OF COMPANIES INC	10Q	05-31-92
H	KRELITZ INDUSTRIES INC	10Q	01-31-92
I	LASER VISION CENTERS INC	10Q	01-31-92
J	LEVERAGE GROUP INC	QA	12-31-91
K	MACY (R H) AND CO INC	10Q	01-31-92
L	MARQUETTE ELECTRONICS INC	10Q	01-31-92
M	MIKRON INSTRUMENT CO INC	10Q	01-31-92
N	RAPITECH SYSTEMS INC	10Q	01-31-92
O	RICHMOND CAPITAL CORP	10Q	01-31-92
P	LAKESIDE BANCSHARES INC	10Q	03-31-92
Q	TRI VALLEY BANCORP	10Q	01-31-92
R	TSUNAMI CAPITAL CORP	10Q	01-31-92
S	UNIVERSAL CERAMICS INC	10Q	01-31-92
T	UNIVERSAL DYNAMICS INC	10Q	01-31-92

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q



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A QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended

January 31, 1992

A
922243

OR

— TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from

to

Commission file number

0-6715

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ANALOGIC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

04-2454372

(State or other jurisdiction of
incorporation or organization)(I.R.S. Employer
Identification No.)

8 Centennial Drive, Peabody, Massachusetts

01960

(Address of principal executive offices)

(Zip Code)

(508) 977-3000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last
report.)Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act
of 1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes ☒ No ☐The number of shares of Common Stock outstanding at January 31, 1992 was
12,595,179

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ANALOGIC CORPORATION AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION
ANALOGIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(000 omitted)

	January 31, 1992	July 31, 1991
	----- (Unaudited)	----- (Audited)
ASSETS		
Current Assets:		
Cash (including time deposits of approx. \$7,693 and \$22,963)	\$ 6,816	\$ 23,132
Marketable securities, at cost which approximates market	60,885	59,060
Accounts and notes receivable - net	25,485	26,820
Inventories	35,097	33,659
Prepaid expenses and other current assets	2,652	2,589
	-----	-----
Total current assets	130,936	145,260
	-----	-----
Property, plant and equipment, net	53,923	40,841
Investments in and advances to affiliated companies	3,250	1,250
Excess of cost over acquired net assets, net of accumulated amortization	1,137	933
Other assets, including unamortized software costs (\$1,918 and \$1,920)	2,454	2,198
	-----	-----
	<u>\$191,700</u>	<u>\$190,482</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Mortgage and other notes payable	\$ 2,349	\$ 345
Obligations under capital leases	262	247
Accounts payable, trade	4,639	5,904
Accrued employee compensation and benefits	4,101	5,509
Accrued expenses	2,895	2,749
Accrued income taxes	705	1,779
	-----	-----
Total current liabilities	14,951	16,533
	-----	-----
Long-Term Debt:		
Mortgage and other notes payable	12,221	8,471
Obligations under capital leases	4,416	4,551
Deferred Income Taxes	1,732	1,767
Minority Interest in Consolidated Subsidiary	2,162	1,844
Stockholders' Equity:		
Common stock, \$.05 par	655	704
Capital in excess of par value	14,128	22,994
Retained earnings	147,563	143,210
Less: Treasury stock, at cost	(5,627)	(9,192)
Unearned compensation	(501)	(400)
	-----	-----
	156,218	157,316
	-----	-----
	<u>\$191,700</u>	<u>\$190,482</u>
	=====	=====

The accompanying notes are an integral part of these financial statements.

ANALOGIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
 (UNAUDITED)
 (000 omitted, except share data)

	Three Months Ended January 31,		Six Months Ended January 31,	
	1992	1991	1992	1991
Revenues:				
Product and service, net	\$32,806	\$33,853	\$63,970	\$64,315
Engineering and licensing	775	1,295	1,390	2,904
Other operating revenue	1,765		3,993	
Interest and dividend income	980	1,304	2,190	2,680
Total revenues	36,326	36,452	71,543	69,899
Costs and expenses:				
Cost of sales:				
Product & service	20,356	19,143	39,120	36,364
Engineering & licensing	666	951	1,263	2,324
Other operating expenses	1,267		2,586	
General and administrative	3,761	2,869	7,194	3,588
Selling	3,150	3,357	6,078	6,330
Research and product development	3,370	5,177	10,593	9,822
Interest expense	350	209	709	431
Other expense		100		200
Amortization of excess of cost over acquired net assets	42	35	76	69
Total cost of sales and expenses	34,962	31,841	67,619	61,128
Income from operations	1,364	4,611	3,924	8,771
Equity in net income (loss) of unconsolidated affiliates	1,450	(250)	1,991	(500)
Income before income taxes	3,014	4,361	5,917	8,271
Provision for income taxes	702	1,118	1,192	2,132
Minority interest in net income of consolidated subsidiary	295	171	372	333
Net income	\$ 2,017	\$ 3,072	\$ 4,353	\$ 5,806
Average common and common equivalent shares outstanding	12,725,209	13,297,804	12,894,450	13,590,153
Earnings per common and common equivalent share	\$0.16	\$0.23	\$0.34	\$0.43
Dividends per share	NONE	NONE	NONE	NONE

The accompanying notes are an integral part of these financial statements.

ANALOGIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars omitted)

Six Months Ended
January 31,

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$4,353	\$5,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	4,087	3,668
Amortization of capitalized software	402	212
Amortization of excess of cost over net acquired assets	76	
Minority interest in net income of consolidated subsidiary	318	333
Increase in excess of cost over acquired net assets	(280)	69
Compensation from stock grants	91	184
Changes in operating assets & liabilities		
Decrease (Increase) in assets:		
Accounts and notes receivable	1,334	(1,469)
Inventories	(1,438)	(1,392)
Prepaid expenses and other current assets	(403)	31
Other assets	(258)	(404)
Increase (Decrease) in liabilities:		
Accounts payable, trade	(1,265)	(55)
Accrued expenses and other current liabilities	(1,262)	(119)
Accrued and deferred income taxes	(789)	(1,447)
TOTAL ADJUSTMENTS	813	(389)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,966	5,417
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in and advances to affiliated companies, net of cash acquired	(2,000)	
Additions to property, plant and equipment	(16,736)	(3,426)
Capitalized software	(400)	(200)
Proceeds on maturities (purchases) of marketable securities	(1,825)	2,739
Net assets acquired in business combination	(413)	
NET CASH USED BY INVESTING ACTIVITIES	(21,374)	(887)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in debt	8,000	2,250
Payments on debt and capital lease obligations	(368)	(187)
Purchase of common stock for treasury	(5,750)	(8,560)
Issuance of common stock pursuant to stock options and employee stock purchase plan	208	34
NET CASH USED BY FINANCING ACTIVITIES	92	(6,463)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,316)	(1,933)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,132	10,004
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$6,816	\$8,071

The accompanying notes are an integral part of these financial statements.

ANALOGIC CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to fairly present Analogic Corporation's financial position as of January 31, 1992 and July 31, 1991, the results of its operations for the three and six months ended January 31, 1992 and 1991 and statements of cash flows for the six months then ended. The results of the operations for the three and six months ended January 31, 1992 are not necessarily indicative of the results to be expected for the fiscal year ending July 31, 1992.

The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in its Annual Report on Form 10-K for the fiscal year ended July 31, 1991.

2. The consolidated financial statements include the accounts of the Company, all wholly owned subsidiaries, and Camtronics Ltd. The ownership in Camtronics Ltd. increased from approximately 65% to approximately 66% as a result of minority shareholders exercising their conversion rights to sell 5% of their shares in the amount of \$332,000 to Camtronics. Investments in companies in which ownership interests range from 20 to 50 percent and the Company exercises significant influence over operating and financial policies are accounted for using the equity method. Other investments are accounted for using the cost method.
3. Financial statements, with the exception of the July 31, 1991 balance sheet, are unaudited and have not been examined by independent certified public accountants.
4. The inventories as of January 31, 1992 were not based on a physical or perpetual inventory but were calculated on the basis of an estimated percentage of material used during the period. The components of inventory are estimated as follows:

	January 31, 1992	July 31, 1991
	-----	-----
Raw materials	\$13,851,000	\$13,259,000
Work-in-process	15,750,000	14,969,000
Finished goods	5,496,000	5,431,000
	-----	-----
	<u>\$35,097,000</u>	<u>\$33,659,000</u>

ANALOGIC CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(continued)

5. On August 8, 1991, Anadventure II Corporation ("Anadventure II"), a wholly-owned subsidiary, purchased for the sum of \$16,000,000 from a wholly-owned subsidiary of the Federal Deposit Insurance Corporation (FDIC), the entire interest in a Marriott hotel complex. Of the purchase price, \$10,000,000 was paid in cash and the balance was paid by a \$6,000,000 promissory note co-made by Anadventure II and the Company. Under the terms of the note, annual principal payments of \$2,000,000 commencing August 8, 1992 are due until August 8, 1994. Interest is at prime with an interest free period from August 8, 1991 through August 7, 1992. The discounted present value of the \$6,000,000 promissory note is approximately \$5,500,000. This transaction was accounted for as a purchase and the results of the hotel's operations are consolidated for the three and six month period ending January 31, 1992.
6. Interest paid, net of amount capitalized, amounted to \$698,000 and \$398,000 during the six months ended January 31, 1992 and 1991, respectively. Interest expense for the six months ended January 31, 1992 amounted to \$709,000.
7. Income taxes paid during the six months ended January 31, 1992 and 1991 amounted to \$2,289,000 and \$3,510,000, respectively.

**ANALOGIC CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

FINANCIAL CONDITION

The Company's balance sheet at January 31, 1992 and July 31, 1991 reflects a current ratio of 8.8 to 1. Cash, time deposits and marketable securities, along with accounts and notes receivable, constitute approximately 71% of current assets at January 31, 1992. Liquidity is sustained principally through funds provided from operations, with short-term time deposits and marketable securities available to provide additional sources of cash. The Company places its cash investments in high credit quality financial instruments and, by policy, limits the amount of credit exposure to any one financial institution. Management does not anticipate any difficulties in financing operations at anticipated levels. The Company's debt to equity ratio was 0.23 to 1 at January 31, 1992 and 0.21 to 1 at July 31, 1991.

Capital expenditures totaled approximately \$16,736,000 during the six months ended January 31, 1992.

As part of a stock repurchase program authorized by the Board of Directors, the Company purchased 517,400 shares of common stock for its treasury during the first six months of fiscal 1992 at an aggregate cost of \$5,750,000.

During the first quarter of fiscal 1992, 1,020,352 shares of treasury stock were constructively retired at cost.

RESULTS OF OPERATIONS

Six Months Fiscal 1992 (01/31/92) vs. Six Months Fiscal 1991 (01/31/91)

Product, service, engineering and licensing revenues for the six months ended January 31, 1992 were \$65,360,000 as compared to \$67,219,000 for the same period last year. The decrease of \$1,859,000 was principally due to a decrease in sales of Industrial Technology Products of \$4,031,000 and Signal Processing Technology Products of \$4,193,000 offset by increased sales of Medical Technology Products of \$6,365,000. Other operating revenue of \$3,995,000 represents revenue from the hotel operation for the six months ending January 31, 1992.

The decrease in interest and dividend income was caused by a reduction in the amount of resources available for investment purposes and lower interest rates.

Cost of sales as a percent of product, service, engineering and licensing revenues for the six months of fiscal 1992 and fiscal 1991 were 62% and 58%, respectively. The increase was due primarily to higher direct material costs. Operating costs associated with the hotel during the six months of fiscal 1992 were \$2,586,000.

**ANALOGIC CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

RESULTS OF OPERATIONS

Six Months Fiscal 1992 (01/31/92) vs. Six Months Fiscal 1991 (01/31/91)
(continued)

General and administrative expenses increased by \$1,406,000 primarily due to such costs within the hotel operation and payroll related expenses. Research and product development expenses increased \$771,000 due to the addition of staff supporting new product development programs within the Medical Technology Products sector. Selling expenses decreased \$252,000 primarily due to a reduction in commission expense due to lower product sales volume, a cost reduction program implemented in the foreign sales subsidiaries offset by costs within the hotel operation.

Interest expense increased \$276,000 primarily due to the debt incurred in connection with the purchase of the hotel.

Computer software costs of \$400,000 and \$200,000 were capitalized in the first six months of fiscal 1992 and 1991, respectively. Amortization of capitalized software amounted to \$402,000 and \$212,000 in the first six months of fiscal 1992 and 1991, respectively.

Other expense represents a reduction of \$200,000 in the first six months of fiscal 1991 for estimated impairment in the value of one of the Company's investments.

During the six months ended January 31, 1992, the carrying value of the investment in Analogic Scientific has been increased \$2,000,000 to reflect the recognition of a portion of the Company's share of Analogic Scientific's income.

The first six months of fiscal 1991 included a charge of \$500,000 resulting from the Company's equity in losses in connection with the Company's investment in a partnership.

Minority interest in the net income of the Company's consolidated subsidiary, Camtronics, for the six months ended January 31, 1992 and 1991 amounted to \$372,000 and \$333,000, respectively.

The effective tax rate for the first six months of fiscal 1992 was 20% vs. 26% for the first six months of fiscal 1991. The reduction is primarily due to the increase in tax exempt interest from investments as a percentage of taxable income and non taxable income from a foreign investment.

In February, 1992, the Financial Accounting Standards Board (FASB) issued Statement No. 109 which will require the Company to change its accounting for income taxes by 1994. The adoption of Statement No. 109 will be reported as a change in accounting principle. If adopted for the first six months of fiscal 1992, there would not have been a material impact on the financial statements.

**ANALOGIC CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

RESULTS OF OPERATIONS

Six Months Fiscal 1992 (01/31/92) vs. Six Months Fiscal 1991 (01/31/91)
(continued)

General and administrative expenses increased by \$1,606,000 primarily due to such costs within the hotel operation and payroll related expenses. Research and product development expenses increased \$771,000 due to the addition of staff supporting new product development programs within the Medical Technology Products sector. Selling expenses decreased \$252,000 primarily due to a reduction in commission expense due to lower product sales volume, a cost reduction program implemented in the foreign sales subsidiaries offset by costs within the hotel operation.

Interest expense increased \$278,000 primarily due to the debt incurred in connection with the purchase of the hotel.

Computer software costs of \$400,000 and \$200,000 were capitalized in the first six months of fiscal 1992 and 1991, respectively. Amortization of capitalized software amounted to \$402,000 and \$212,000 in the first six months of fiscal 1992 and 1991, respectively.

Other expense represents a reduction of \$200,000 in the first six months of fiscal 1991 for estimated impairment in the value of one of the Company's investments.

During the six months ended January 31, 1992, the carrying value of the investment in Analogic Scientific has been increased \$2,000,000 to reflect the recognition of a portion of the Company's share of Analogic Scientific's income.

The first six months of fiscal 1991 included a charge of \$500,000 resulting from the Company's equity in losses in connection with the Company's investment in a partnership.

Minority interest in the net income of the Company's consolidated subsidiary, Cantronics, for the six months ended January 31, 1992 and 1991 amounted to \$372,000 and \$333,000, respectively.

The effective tax rate for the first six months of fiscal 1992 was 26% vs. 24% for the first six months of fiscal 1991. The reduction is primarily due to the increase in tax exempt interest from investments as a percentage of taxable income and non taxable income from a foreign investment.

In February, 1992, the Financial Accounting Standards Board (FASB) issued Statement No. 109 which will require the Company to change its accounting for income taxes by 1994. The adoption of Statement No. 109 will be reported as a change in accounting principle. If adopted for the first six months of fiscal 1992, there would not have been a material impact on the financial statements.

ANALOGIC CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Second Quarter Fiscal 1992 (91/31/92) vs. Second Quarter Fiscal 1991 (91/31/91)

Product, service, engineering and licensing revenues for the three months ended January 31, 1992 and 1991 were \$33,581,000 and \$35,148,000, respectively. The decrease of \$1,567,000 was principally due to a decrease in sales of Industrial Technology Products of \$2,778,000 and Signal Processing Technology Products of \$2,886,000 offset by increased sales of Medical Technology Products of \$4,097,000.

The decrease in interest and dividend income was caused by a reduction in the amount of resources available for investment purposes and lower interest rates.

Cost of sales as a percent of product, service, engineering and licensing revenues for the second quarter of fiscal 1992 was 63% as compared to 57% for the same period last year. The increase was primarily due to higher direct material cost. Operating costs associated with the hotel during the second quarter of fiscal 1992 were \$1,267,000.

General and administrative expenses increased by \$892,000 primarily due to such costs within the hotel operation and payroll related expenditures. Selling expenses decreased by \$207,000 primarily due to a cost reduction program implemented in the foreign sales subsidiaries. Engineering and product development expenses increased by \$193,000 primarily due to additional staff supporting new product development programs within the Medical Product Technology sector.

Interest expense increased \$141,000 primarily due to the debt incurred in connection with the purchase of the hotel.

During the quarter ended January 31, 1992, the carrying value of the investment in Analogic Scientific has been increased \$1,650,000 to reflect the recognition of a portion of the Company's share of Analogic Scientific's income.

Computer software costs of \$280,000 and \$100,000 were capitalized in the second quarter of fiscal 1992 and 1991, respectively. Amortization of capitalized software amounted to \$201,000 and \$106,000 in the second quarter of fiscal 1992 and 1991, respectively.

Other expense represents a reduction of \$100,000 in the second quarter of fiscal 1991 for estimated impairment in the value of one of the Company's investments.

The second quarter of fiscal 1991 included a charge of \$250,000 resulting from the Company's equity in losses in connection with the Company's investment in a partnership.

ANALOGIC CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Second Quarter Fiscal 1992 (01/31/92) vs. Second Quarter Fiscal 1991 (01/31/91) (continued)

Minority interest in the net income of the Company's consolidated subsidiary, Camtronics, was \$295,000 and \$171,000 for the quarters ended January 31, 1992 and 1991, respectively.

The effective tax rate for the second quarter of fiscal 1992 was 23% vs. 26% for the second quarter of fiscal 1991. The reduction is primarily due to the increase in tax exempt interest from investments as a percentage of taxable income and non taxable income from a foreign investment.

In February, 1992, the Financial Accounting Standards Board (FASB) issued Statement No. 109 which will require the Company to change its accounting for income taxes by 1994. The adoption of Statement No. 109 will be reported as a change in accounting principle. If adopted for the second quarter of fiscal 1992, there would not have been a material impact on the financial statements.

ANALOGIC CORPORATION AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 4 - Exhibits and Reports on Form S-K

(a) Exhibits

Exhibit No. 11 - Calculation of earnings per share.

(b) During the quarter ended January 31, 1992, the Company did not file any reports on Form S-K.

ANALOGIC CORPORATION AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANALOGIC CORPORATION

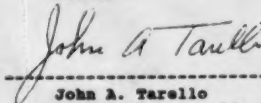
Registrant

Date March 6, 1992



Bernard M. Gordon
President

Date March 6, 1992



John A. Tarello
Senior Vice President
(Chief Accounting Officer)

ANALOGIC CORPORATION AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit No.

Page No.

11

Calculation of Earnings per Share

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**ANALOGIC CORPORATION AND SUBSIDIARIES
CALCULATION OF EARNINGS PER SHARE**

Net earnings per share are computed using the average number of shares actually outstanding plus the incremental shares computed on the assumption that certain lower priced stock options had been exercised with the proceeds utilized to purchase treasury stock.

	Three Months Ended January 31,		Six Months Ended January 31,	
	1992	1991	1992	1991
	----	----	----	----
PRIMARY:				

Net Income	\$2,017,000	\$3,072,000	\$4,353,000	\$5,806,000
	=====	=====	=====	=====
Average shares outstanding	12,581,127	13,225,577	12,742,597	13,507,379
Add: Incremental shares to reflect dilutive stock options deemed common stock equivalents. (Computed by treasury stock method.)	144,082	72,227	151,853	82,774
	-----	-----	-----	-----
Common and common equivalent shares outstanding	12,725,209	13,297,804	12,894,450	13,590,153
	=====	=====	=====	=====
Earnings per share	\$.16	\$.23	\$.34	\$.43
	=====	=====	=====	=====
ASSUMING FULL DILUTION:				

Net Income	\$2,017,000	\$3,072,000	\$4,353,000	\$5,806,000
	=====	=====	=====	=====
Average shares outstanding	12,581,127	13,225,577	12,742,597	13,507,379
Add: Incremental shares due to the effect of common stock equivalents - this assumes that proceeds from shares sold under dilutive stock options (using quarter end market price to determine proceeds where such price was in excess of average quarterly prices) were used to purchase treasury stock.	174,686	112,614	167,123	102,919
	-----	-----	-----	-----
Average common shares outstanding	12,755,813	13,338,191	12,909,720	13,610,298
	=====	=====	=====	=====
Earnings per share	\$.16	\$.23	\$.34	\$.43
	=====	=====	=====	=====

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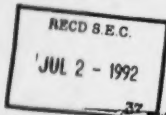
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FORM 8

(As revised, effective September 26, 1949)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549



AMENDMENT TO APPLICATION OR REPORT

Filed pursuant to Section 12, 13, or 15(d) of THE SECURITIES

EXCHANGE ACT OF 1934



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7/15

API ENTERPRISES, INC.

(Exact name of registrant as specified in charter)

AMENDMENT NO. 1

The undersigned registrant hereby amends the following items, financial statements, exhibits or other portions of its QUARTERLY REPORT (February 29, 1992) on Form 10-Q as set forth in the pages attached hereto:

ITEM 6 - Selected Financial Data

ITEM 7 - Financial Statements and Exhibits

ITEM 8 - Financial Statement and Supplementary Financial Information

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API ENTERPRISES, INC.

I N D E X

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API ENTERPRISES, INC.
CONDENSED BALANCE SHEETS
AS AT

FEBRUARY 29, 1992 MAY 31, 1991
(unaudited)

ASSETS

CURRENT ASSETS

Prepaid Expenses	\$ 3,333	\$ 3,500
	-----	-----
<u>TOTAL CURRENT ASSETS</u>	3,333	3,500
	-----	-----

PROPERTY, PLANT AND EQUIPMENT, Less
Accumulated Depreciation of \$ -0-
at February 29, 1992 and \$ -0- at
May 31, 1991

24,039	24,039
-----	-----

OTHER ASSETS

Due from Related Companies	471,929	371,112
Security Deposits	2,525	2,525
	-----	-----
<u>TOTAL OTHER ASSETS</u>	474,454	373,637
	-----	-----
<u>TOTAL ASSETS</u>	\$ 501,826	\$ 401,176
	=====	=====

See notes to financial statements.

API ENTERPRISES, INC.
CONDENSED BALANCE SHEETS
AS AT

FEBRUARY 29, 1992
(unaudited)

MAY 31, 1991

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank Overdraft	\$ 166	\$ 2,768
Accrued Expenses Payable	56,719	54,507
Income Taxes Payable	185	65
Notes Payable - Unsecured	38,645	38,645
Due to Officer	688,661	582,357
	-----	-----
<u>TOTAL CURRENT LIABILITIES</u>	784,376	678,342
	-----	-----

LONG-TERM LIABILITIES

Due to Related Companies	225,387	225,387
	-----	-----
<u>TOTAL LONG TERM LIABILITIES</u>	225,387	225,387
	-----	-----
<u>TOTAL LIABILITIES</u>	1,009,763	903,729
	-----	-----

SHAREHOLDERS' EQUITY

Common Stock \$.01 par at February 29, 1992 and May 31, 1991 authorized 100,000,000 shares, issued and outstanding 10,377,653 shares at February 29, 1992 and 10,117,653 shares at May 31, 1991	103,677	101,177
Paid-In Capital	2,100,560	2,034,060
Accumulated Defficit	(2,593,505)	(2,519,121)
Less: Treasury Stock (189,600 shares at February 29, 1992 and May 31, 1991)	(118,669)	(118,669)
	-----	-----
<u>TOTAL SHAREHOLDERS' EQUITY</u>	(507,937)	(502,553)
	-----	-----
<u>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</u>	\$ 501,826	\$ 401,176
	=====	=====

See notes to financial statements.

API ENTERPRISES, INC.
CONDENSED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED
(unaudited)

FEBRUARY 29, 1992 FEBRUARY 28, 1991

<u>OTHER INCOME</u>	\$ - 0 -	\$ 5,012
	-----	-----
	- 0 -	5,012
<u>COST AND EXPENSES</u>		
Selling, Shipping, General and Administrative Expenses	11,964	19,809
Interest Expense	13,010	12,376
	-----	-----
	24,974	32,185
	-----	-----
<u>(LOSS) FROM CONTINUING OPERATIONS BEFORE OTHER INCOME AND DEDUCTIONS</u>	(24,974)	(27,173)
Gain (Loss) on Sale of Securities	- 0 -	(3,453)
(Loss) on Investment in API Electronics, Inc.	- 0 -	(475,797)
	-----	-----
<u>(LOSS) FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS AND EXTRAORDINARY ITEMS</u>	(24,974)	(506,423)
<u>DISCONTINUED OPERATIONS</u>		
Income from Operations of Discontinued Technapower, Inc. and Subsidiaries	- 0 -	514
<u>EXTRAORDINARY ITEMS</u>		
(Loss) on Investment in Icarus, Inc. Extinguishment of Debt	- 0 -	(400,000)
<u>PROVISION FOR INCOME TAXES</u>	29	- 0 -
<u>NET LOSS BEFORE MINORITY INTEREST</u>	- 0 -	4,915
<u>MINORITY INTEREST</u>	-----	-----
	(\$ 24,945)	(\$900,994)
	=====	=====
<u>PER SHARE</u>		
<u>Primary and Fully Diluted</u>		
Net Income per Common and Common Equivalent Share	\$ - 0 -	\$ - 0 -
	=====	=====
Weighted Average Number of Common and Common Equivalent Shares Outstanding	10,178,053	10,117,653
	=====	=====
Dividends per Share	\$ - 0 -	\$ - 0 -
	=====	=====

See notes to financial statements.

API ENTERPRISES, INC.
CONDENSED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED
(unaudited)

FEBRUARY 29, 1992 FEBRUARY 28, 1991

<u>OTHER INCOME</u>	\$ - 0 -	\$ 5,062
	-----	-----
	- 0 -	5,062
<u>COST AND EXPENSES</u>		
Selling, Shipping, General	40,355	32,455
and Administrative Expenses	38,392	45,002
Interest Expense	-----	-----
	78,747	77,457
	-----	-----
<u>(LOSS) FROM CONTINUING</u>		
<u>OPERATIONS BEFORE OTHER INCOME</u>		
<u>AND DEDUCTIONS</u>	(78,747)	(72,395)
Gain (Loss) on Sale of Securities	5,250	(79,110)
(Loss) on Investment in		
API Electronics, Inc.	- 0 -	(475,797)
	-----	-----
<u>(LOSS) FROM CONTINUING</u>		
<u>OPERATIONS BEFORE DISCONTINUED</u>		
<u>OPERATIONS AND PROVISION</u>		
<u>FOR INCOME TAXES</u>	(73,497)	(627,302)
<u>DISCONTINUED OPERATIONS</u>		
Loss from Operation of Discontinued		
Technapower, Inc. and Subsidiaries	- 0 -	(16,671)
Loss on Sale of		
Burglar Alarm Division	- 0 -	(21,279)
<u>EXTRAORDINARY ITEMS</u>		
(Loss) on Investment in Icarus, Inc.		
Extinguishment of Debt	- 0 -	(400,000)
<u>PROVISION FOR INCOME TAXES</u>	(887)	1,396
<u>NET LOSS BEFORE MINORITY INTEREST</u>	74,384	(1,066,648)
	-----	-----
<u>MINORITY INTEREST</u>		41,918

<u>NET (LOSS)</u>	(\$ 74,384)	(\$1,024,730)
	=====	=====
<u>PER SHARE</u>		
<u>Primary and Fully Diluted</u>		
Net Income per Common and Common		
Equivalent Share	\$ - 0 -	\$ - 0 -
	=====	=====
Weighted Average Number of Common and		
Common Equivalent Shares Outstanding	10,178,053	10,117,653
	=====	=====
Dividends per Share	\$ - 0 -	\$ - 0 -
	=====	=====

See notes to financial statements.

API ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(unaudited)

	FOR THE NINE MONTHS ENDED FEBRUARY 29, 1992	FOR THE NINE MONTHS ENDED FEBRUARY 28, 1991
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net (Loss)	(\$ 74,384)	(\$1,024,730)
Adjustment to Reconcile Net Income		
(Loss) to Net Cash Provided by		
Operating Activities:		
Current Amortization of Goodwill	\$ - 0 -	\$ 6,287
Foreign Currency Translation Adjustment	- 0 -	(2,924)
Loss on Investment in		
API Electronic, Inc.		475,797
Loss on Icarus, Inc. Debt Extinguishment		400,000
Unrealized Loss on Marketable Securities	- 0 -	3,572
(Gain) Loss on Sale of Marketable		
Securities	(5,250)	79,110
Minority Interest in Net Loss of		
Subsidiary	- 0 -	(41,918)
Loss on Sale of Burglar Alarm Division	- 0 -	21,279
Loss on Disposal of Technapower, Inc.	- 0 -	38,610
Change in Assets and Liabilities:		
Decrease in Employee Advances	- 0 -	- 0 -
Decrease in Prepaid Expenses	168	782
Decrease in Accounts Receivable	- 0 -	- 0 -
Increase in Accrued Interest Payable	35,480	- 0 -
Increase in Accounts Payable		
and Accrued Expenses	2,212	321,801
(Increase) Decrease in Income Taxes		
Payable	120	(590)
Decrease in Inventory	- 0 -	(48,892)
Decrease in Payroll Taxes Payable	- 0 -	471
Decrease in Accrued Payroll	- 0 -	- 0 -
Increase in Interest on Officers Loans	- 0 -	- 0 -
Increase in Shareholders Loan	139,823	45,487
	-----	-----
TOTAL ADJUSTMENTS	172,553	1,298,872
	-----	-----
Net Cash Provided by Operating Activities	98,169	274,142
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Marketable Securities	(10,000)	(221,838)
Sale of Marketable Securities	15,250	- 0 -
Purchase of Other Investments	- 0 -	658
	-----	-----
Net Cash (Used in)		
Provided by Investing Activities	5,250	(221,180)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from Related Companies	- 0 -	38,795
Payments to Related Companies	(100,817)	(77,500)
Payments from Shareholder	- 0 -	11,148
	-----	-----
Net Cash Used in Financing Activities	(100,817)	(27,557)
	-----	-----
Net Change in Cash and Cash Equivalents	2,602	25,405
Cash and Cash Equivalents at the Beginning		
of Year	(2,768)	(23,026)
	-----	-----
Cash and Cash Equivalents at the End of Year	(\$ 166)	\$ 2,379
	=====	=====

API ENTERPRISES, INC.
NOTES TO FINANCIAL STATEMENTS
(unaudited)

1. The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months period ended February 29, 1992 are not necessarily indicative of the results that may be expected for the year ended May 31, 1992. For further information refer to the financial statements and footnotes thereto incorporated by reference in the Company's Annual Report on Form 10-K for the year ended May 31, 1991.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Financial Position

The company had operating expenses in excess of revenues resulting in a loss from operations of \$24,945 and \$74,384 for the three and nine months ended February 29, 1992, respectively. Working capital increased \$2,602 due principally from loans made by the Chairman of the Board. During the nine months ended February 29, 1992, the Chairman advanced the Company \$139,823.

On January 8, 1992, the Company announced its intent to merge with CECO Filters, Inc. of Conshohocken, PA (CEC.X - Phila. Stock Exchange) in a share exchange transaction which management has valued at \$25.5 million dollars. CECO Filters, Inc. is in the pollution control industry and is a manufacturer of industrial air filters.

Initially, API was going to merge CECO into API; however, the transaction was restructured so that CECO would be merged into a wholly-owned subsidiary of API. Prior to merger, the Company will be effecting a one-for-five common stock reverse split. It is expected that one share of the Company's post-reverse split common stock will be exchanged for each existing share of CECO Filters, Inc.

As a first step in this transaction, the Company intends to purchase approximately 24.8% of the issued and the outstanding shares of common stock of CECO from Introtech Investments, Ltd., an Ontario corporation ("Introtech") in a private transaction after the reverse split and prior to the proposed merger. The company intends to exchange one share of the post-reverse split common stock for each share of CECO it will receive in such private transaction.

The reverse split has been recommended by API's Board of Directors for a number of reasons, including to decrease the number of outstanding shares of common stock of API to increase the market price. API must increase the market price for its common stock to meet the newly adopted NASDAQ maintenance standards. Shortly, after the reverse split API intends to effect the merger between a newly formed wholly-owned subsidiary of API and CECO Filters, Inc. ("CECO"). CECO will merge into the subsidiary and thereafter cease to exist. One of the API's primary motivations to effect the merger with CECO is to enable API to meet the total asset and net capital requirements of NASDAQ's new maintenance standards. API views the reverse split and the merger as two separate and distinct transactions.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
- CONTINUED -

The Board of Directors has approved and recommended a change of the Company's name from API Enterprises, Inc. to CECO Environmental Corp. The new name of the Company will reflect the nature of the operating business of the Company after its proposed merger with CECO. Management believes that the Company's name should be indicative of its business activities. Because environmental concerns are continuously growing in importance, management of the Company believes that the Company's new name will attract attention to its stock and facilitate the acquisition of goodwill in its business.

API ENTERPRISES, INC. AND SUBSIDIARY
PART II - OTHER INFORMATION

Item 5 - Other Materially Important Events

None

Item 6 - Exhibits and Reports on Form 8 - K

- (a) Exhibits - There are no exhibits to this report.
- (b) Reports on Form 8-K - Six filed with quarter ended February 29, 1992.

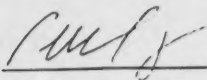
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

API ENTERPRISES, INC.

Date:

JUN 30 1992

A handwritten signature in dark ink, appearing to read 'Phillip DeZwirek', is written over a horizontal line.

Phillip DeZwirek
Chairman of the Board

0 669



92070732

Manually Signed

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549C
92224310
10

MAR 10 1992

FORM 10-Q

Q 35516

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934
For the quarterly period ended January 25, 1992

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (c) OF THE
SECURITIES ACT OF 1934
For the transition Period from _____ to _____

Commission file No. 0-9085

APPLIED SOLAR ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction
of incorporation or organization)

94-2579029
(I.R.S. Employer
Identification No.)

15251 East Don Julian Road
City of Industry, California
(Address of principal executive offices)

91745
(Zip Code)

Registrant's telephone number, including area code: (818) 968-6581

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ XNo ☐

The number of shares of common stock outstanding as of February 14, 1992 was 3,417,951.

This document contains 10 pages.

The exhibit listing appears on page 9.

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APPLIED SOLAR ENERGY CORPORATION

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APPLIED SOLAR ENERGY CORPORATION
Condensed Consolidated Balance Sheets
(Dollars in thousands)

	January 25, 1992 (Unaudited)	October 26, 1991
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 29
Accounts receivable, less allowance for doubtful accounts of \$64 and \$64, respectively	1,202	1,363
Costs and earnings in excess of billings	1,354	868
Claims and equitable adjustments recoverable	962	867
Inventories:		
Work-in-progress	1,822	975
Materials and supplies	2,076	1,904
	3,898	2,879
Prepaid expenses	438	660
Total current assets	7,854	6,666
Property, equipment and improvements, at cost:		
Land	2,263	2,263
Building and improvements	9,194	9,194
Machinery and equipment	23,396	23,373
Construction-in-progress	112	69
	34,965	34,899
Less: accumulated depreciation and amortization	20,348	19,767
	14,617	15,132
Other assets, net	297	284
	<u>\$22,768</u>	<u>\$22,082</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Payable to majority stockholder	\$ 9,049	\$ 6,842
Accounts payable	1,064	638
Accrued compensation and related expenses	509	960
Accrued property tax	153	501
Other accrued liabilities	516	752
Current portion of long-term debt	62	65
Total current liabilities	11,353	9,758
Long-term debt	853	870
Deferred taxes based on income	59	59
Stockholders' equity:		
Preferred stock without par value; authorized 1,000,000 shares; none issued	-	-
Common stock without par value; authorized 10,000,000 shares; issued and outstanding 3,417,951 shares	21,415	21,415
Deficit	(10,912)	(10,020)
Total stockholders' equity	10,503	11,395
	<u>\$22,768</u>	<u>\$22,082</u>

See Notes to Condensed Consolidated Financial Statements

APPLIED SOLAR ENERGY CORPORATION
Condensed Consolidated Statements of Operations
(Amounts in thousands, except per share data)
(Unaudited)

	<u>Three Months Ended</u>	
	<u>January 25, 1992</u>	<u>January 26, 1991</u>
Net sales	\$ 5,596	\$ 5,396
Costs and expenses:		
Cost of products sold	4,494	4,010
Internal research and product development	588	321
Selling, administrative and general	1,285	1,197
Interest expense, net	<u>121</u>	<u>185</u>
Total costs and expenses	<u>6,488</u>	<u>5,713</u>
Net loss	\$ (892)	\$ (317)
Net loss per share	\$ (.26)	\$ (.09)
Average common shares	<u>3,418</u>	<u>3,418</u>

See Notes to Condensed Consolidated Financial Statements

APPLIED SOLAR ENERGY CORPORATION
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	<u>Three Months Ended</u>	
	<u>January 25,</u> <u>1992</u>	<u>January 26,</u> <u>1991</u>
Cash flows from operating activities:		
Net loss	\$ (892)	\$ (317)
Adjustments to reconcile net loss		
to net cash used by operating activities:		
Depreciation and amortization	581	723
Increase in other assets	(13)	(10)
Change in operating assets and liabilities	<u>(1,826)</u>	<u>(1,118)</u>
Net cash used by operating activities	<u>(2,150)</u>	<u>(722)</u>
Cash flows from investing activities -		
Capital expenditures	(66)	(293)
Cash flows from financing activities:		
Net cash received on borrowings		
from majority stockholder	2,207	1,204
Cash paid on principal amount of		
long-term debt	<u>(20)</u>	<u>(14)</u>
Net cash provided by financing activities	<u>2,187</u>	<u>1,190</u>
Net increase (decrease) in cash and		
cash equivalents	(29)	175
Cash and cash equivalents - beginning of period	<u>29</u>	<u>37</u>
Cash and cash equivalents - end of period	<u>\$ -</u>	<u>\$ 212</u>

See Notes to Condensed Consolidated Financial Statements

APPLIED SOLAR ENERGY CORPORATION
Notes to Condensed Consolidated Financial Statements
January 25, 1992
(Unaudited)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The condensed consolidated financial statements should be read in conjunction with the financial statements, including notes thereto, contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 26, 1991. The results of operations for the three months ended January 25, 1992 are not necessarily indicative of the results to be expected for the full year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Loss Per Share

Loss per share is computed by dividing net loss by the weighted average number of common shares outstanding. No common equivalent shares were used in the calculation of loss per share since their effect would be antidilutive.

Item 2.

APPLIED SOLAR ENERGY CORPORATION
Management's Discussion and Analysis
of Financial Condition and Results of Operations

GENERAL

On February 28, 1992, a majority of the Company's shareholders approved a merger of Applied Solar Energy Corporation with a corporation formed by Westar Capital. (See Item 5 - "Other Information")

The Company's total backlog of contracts was \$13.4 million at January 25, 1992 down from \$34.2 million at January 26, 1991. The Company received new orders totalling \$538,000 during the quarter ended January 25, 1992. The backlog consists of orders believed to be firm. Because customers may cancel or reschedule orders, backlog as of any particular date may not necessarily be representative of sales in any succeeding fiscal period.

Financial Condition

The Company experienced negative cash flow from operations of \$2.2 million during the fiscal quarter ended January 25, 1992 due to a net operating loss, an increase in operating assets, primarily inventories and costs and earnings in excess of billings, and a decrease in certain accrued liabilities. Capital expenditures during the three months ended January 25, 1992 were \$66,000 versus \$293,000 in fiscal 1991. During the remainder of fiscal 1992, the Company anticipates that capital expenditures will not exceed approximately \$1.5 million for machinery, equipment, facility improvement and to comply with environmental and safety regulations.

At present, the Company's primary external source of funds is American Cyanamid Company via an unsecured demand note credit agreement which permits the Company to borrow up to \$8,500,000 according to its needs and a second demand note credit agreement which permits the Company to borrow an additional \$3,500,000 secured by a second trust deed on the Company's property. At January 25, 1992, the Company owed American Cyanamid Company \$8.5 million under the unsecured demand note credit agreement and \$385,000 under the secured demand note credit agreement. The Company believes that borrowing from American Cyanamid Company under these credit agreements will be sufficient to fund the Company's operating and capital needs until the approved merger with Westar Capital is consummated or during fiscal 1992 if the merger is not consummated. (See Item 5 - "Other Information").

Upon consummation of the proposed merger and over a period of time up to six months thereafter, one-time incentive payments aggregating approximately \$292,000 will be paid to certain of the Company's key employees in consideration of their agreement to continue as employees of the Company for periods ranging from three to six months following the closing of the merger. American Cyanamid has agreed to loan such amounts to the surviving corporation.

APPLIED SOLAR ENERGY CORPORATION
Management's Discussion and Analysis
of Financial Condition and Results of Operations
(Continued)

The working capital deficiency at January 25, 1992 is \$3.5 million and is primarily attributable to the treatment of the Company's demand notes owing to American Cyanamid as short-term debt on its condensed consolidated balance sheet. If the merger is not consummated, the Company does not foresee a significant change that would permit a portion of such demand notes to be re-classified as long-term debt. If the merger is consummated, the demand notes will be repaid through the combination of cash paid by the purchaser at the closing and the delivery to American Cyanamid of a \$6 million promissory note secured by the Company's real property. Such portions of the promissory note payable within one year and over one year will be classified as short and long-term debt, respectively. Such classification would materially effect the working capital of the surviving corporation.

Results of Operations

Three months ended January 25, 1992 compared to three months ended January 26, 1991

Revenues during the first quarter of fiscal 1992 increased \$200,000 or 4% as compared to the same quarter in fiscal 1991, due primarily to a \$1.2 million increase in revenues from the gallium arsenide solar cell business due to a higher number of units shipped, higher unit prices and mix. This increase was largely offset by decreased revenues in the silicon solar cell and bypass diode product lines which decreased \$758,000 as no revenues were recognized in fiscal 1992 due to the termination, for convenience, of the contracts for NASA's space station "Freedom" in August 1991. In addition, contract research and development revenues decreased \$232,000 due to the decrease in the number of contracts in fiscal 1992.

Gross margin decreased in the first fiscal quarter of 1992 to 19.7% of sales versus 25.7% in fiscal 1991 due primarily to increased unit costs resulting from substantially reduced silicon solar cell and bypass diode production levels in fiscal 1992. There were no material revisions to estimated final contract profits or losses during the first quarter of fiscal 1992 or 1991.

Selling, administrative and general expenses increased by \$88,000 or 7% in the first quarter of fiscal 1992 versus the first quarter of fiscal 1991 due primarily to the inclusion in fiscal 1992 of \$86,000 of expenses related to the approved merger with a company affiliated with Westar Capital.

Internal research and product development expense increased \$267,000 or 83% during the first fiscal quarter of 1992 as compared to the like period in fiscal 1991 due to continued development of the Company's gallium arsenide laser products.

Interest expense, net of interest income, decreased \$64,000 or 35% due to lower average balances outstanding under the Company's credit agreements with American Cyanamid Company and lower interest rates during the first fiscal quarter of 1992 as compared to fiscal 1991.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

A Special Meeting of Shareholders was held on February 28, 1992 to consider approval of a proposed merger of the Company with a company affiliated with Westar Capital under an Agreement and Plan of Merger (the Agreement) dated November 20, 1991 pursuant to which each outstanding share of the Company's common stock, without par value, other than the shares of common stock owned by American Cyanamid Company and any dissenting shares as defined in the Information Statement would be converted into a right to receive \$6.00 in cash and each share of common stock owned by American Cyanamid Company would be converted into the right to receive approximately \$1.99 in cash.

At the Special Meeting, 2,514,117 shares of common stock were voted in favor of the proposed merger, zero shares were voted against the proposed merger and zero shares abstained. In addition, none of the shareholders chose to exercise their dissenters' rights as permitted under Chapter 13 of the California General Corporation Law. No other matters were voted upon at the Special Meeting of Shareholders.

Item 5. Other Information

On February 28, 1992, a majority, 73.6%, of the Company's shareholders approved a merger of Applied Solar with a corporation formed by Westar Capital. Consummation of the transaction is subject to the satisfaction of certain items, including approval of the fairness of the transaction by the California Department of Corporations. To allow the parties additional time to attempt to conclude the open items, Applied Solar, American Cyanamid Company, Westar Capital and the other parties to the Agreement have consented to extend the deadline for consummation of the transaction until the Department of Corporations has approved its fairness, but not later than March 16, 1992.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required.

None.

(b) Reports on Form 8-K.

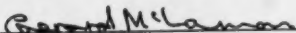
None.

SIGNATURES

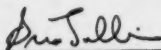
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

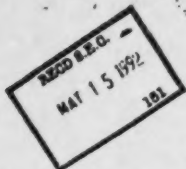
APPLIED SOLAR ENERGY CORPORATION
(Registrant)

March 9, 1992


Gerard McLarnon,
President and Chief Executive Officer
(Principal Executive Officer)

March 9, 1992


Brian J. Sullivan,
Chief Financial Officer
(Principal Financial and Accounting Officer)



SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 - Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1992

Commission file number

0 - 13819

BANPONGE CORPORATION

(Exact Name of registrant as specified in its charter)

Puerto Rico
(State of incorporation)

88-0418582
(U.S. Employer
Identification No.)

Popular Center Building
209 Munoz Rivera Avenue, Hato Rey
San Juan, Puerto Rico, 00918
(Address of principal executive offices)
(Zip Code)

PROCESSED BY
27-13-I
MAY 18 1992

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Q-Data Corp. - St. Petersburg, FL

Registrant's telephone number, including area code

(809) 765-9800

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed
by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the Registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

No

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AVAILABLE**

Indicate the number of shares outstanding of each of the issuer's classes of common stock,
as of the close of the period covered by this report.

Common Stock, \$6.00 Par value
(Title of Class)

30,130,144

(Shares Outstanding as of March 31, 1992)

BANPONCE CORPORATION **INDEX**

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BanPonce Corporation
Consolidated Statements of Condition
(Unaudited)

(Thousands of dollars)	March 31, 1992	December 31, 1991
ASSETS		
Cash and due from banks	\$305,013	\$311,384
Money market investments:		
Federal funds sold and securities and mortgages purchased under agreements to resell	64,713	139,530
Time deposits with other banks	350,100	340,100
Bankers' acceptances	1,763	1,703
	416,576	481,333
Investment securities at cost, market value		
\$2,924,927 (1991) - \$2,431,302) Notes 2 and 3		
U.S. Treasury securities	2,177,744	1,655,965
Obligations of other U.S. Government agencies and corporations	214,839	229,289
Obligations of P.R., States and political subdivisions	218,976	167,720
Other	275,724	281,035
	2,887,083	2,354,009
Trading account securities, at market	5,389	1,657
Loans (Note 3)	5,546,083	5,575,976
Less-Unearned income	366,481	380,419
Allowance for loan losses	100,897	94,199
	5,078,705	5,101,358
Premises and equipment	254,596	253,054
Other real estate	6,321	7,012
Customers' liabilities on acceptances	1,006	1,691
Accrued income receivable	65,767	59,027
Other assets	86,342	71,026
Intangible assets	134,806	138,731
	\$9,241,304	\$8,780,282
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$1,396,446	\$1,499,302
Interest bearing	5,611,088	5,707,766
	7,207,534	7,207,118
Federal funds purchased and securities sold under agreements to repurchase (Note 3)	920,272	449,114
Other short term borrowings	152,586	143,724
Notes payable	73,760	73,752
Senior debentures	30,000	30,000
Acceptances outstanding	1,006	1,691
Other liabilities	104,657	138,065
	8,489,835	8,043,464
Subordinated notes (Note 5)	94,000	94,000
Preferred stock of subsidiary Bank (Note 6)	11,000	11,000
Stockholders' equity (Note 7)		
Common stock	180,781	180,563
Surplus	287,974	287,539
Retained earnings	124,285	110,287
Capital reserves	53,429	53,429
	646,469	631,818
	\$9,241,304	\$8,780,282

See accompanying notes to unaudited consolidated financial statements

BanPonce Corporation
Consolidated Statements of Income
(Unaudited)

Quarter ended
 March 31,

(Thousands of dollars except per share amounts)	1992	1991
INTEREST INCOME:		
Loans	\$129,905	\$148,906
Money market investments	6,503	18,687
Investment securities	45,103	38,442
Trading account securities	64	175
	<u>181,575</u>	<u>204,210</u>
INTEREST EXPENSE:		
Deposits	64,976	89,046
Short-term borrowings	8,383	12,481
Long-term debt	3,518	2,982
	<u>76,875</u>	<u>104,509</u>
Net interest income	104,700	99,701
Provision for loan losses	24,020	19,783
Net interest income after provision for loan losses	80,680	79,918
Service charges on deposit accounts	15,989	12,021
Other service fees	9,873	8,755
Gain (loss) on sale of securities	210	246
Trading account profit (loss)	87	190
Other operating income	4,185	3,603
	<u>111,024</u>	<u>104,733</u>
OPERATING EXPENSES:		
Personnel costs:		
Salaries	32,925	33,234
Profit sharing	4,181	3,401
Pension and other benefits	9,319	9,134
Net occupancy expense	46,405	45,769
Equipment expenses	5,804	5,718
Other taxes	5,539	5,743
Professional fees	3,327	3,842
Communications	4,772	4,771
Business promotion	4,183	4,132
Printing and supplies	2,056	2,259
Other operating expenses	1,775	1,884
Amortization of intangibles	9,149	7,709
	<u>3,531</u>	<u>3,036</u>
Income before tax and dividends on preferred stock of subsidiary Bank	86,521	84,663
Income tax (Note 8)	24,503	20,070
	<u>4,286</u>	<u>2,169</u>
Income before dividends on preferred stock of subsidiary Bank	20,217	17,901
Dividends on preferred stock of subsidiary Bank	193	226
NET INCOME	<u>\$20,024</u>	<u>\$17,675</u>
Earnings per share (Note 9)	<u>\$0.66</u>	<u>\$0.59</u>

See accompanying notes to unaudited consolidated financial statements

BenPonce Corporation
Consolidated Statements of Cash Flows
(Unaudited)

	For the quarter ended March 31,	
(Thousands of dollars)	1992	1991
Cash flows from operating activities:		
Net income	\$20,024	\$17,675
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization of premises and equipment	6,705	5,887
Provision for loan losses	24,020	19,783
Amortization of intangibles	3,531	3,036
Gain on sale of investment securities and other	(210)	(246)
Gain on sale of premises and equipment	(888)	(31)
Amortization of premiums and accretion of discounts on investments	133	(101)
Amortization of deferred loan fees and costs	257	161
Net increase in trading securities	(3,732)	(5,558)
Net increase in interest receivable	(6,740)	(19,768)
Net increase in other assets	(11,492)	(13,956)
Net (decrease) increase in interest payable	(5,407)	4,422
Net increase in income tax payable	3,731	1,432
Net decrease in other liabilities	(32,423)	(16,219)
Total adjustments	(22,313)	(21,358)
Net cash used in operating activities	(2,289)	(3,683)
Cash flows from investing activities:		
Net decrease in money market investments	64,758	97,432
Maturities of investment securities	1,160,788	834,591
Sales of investment securities	5,144	288,317
Purchases of investment securities	(1,698,930)	(1,400,833)
Net (disbursements) receipts on loans	(3,379)	49,104
Acquisition of premises and equipment	(14,385)	(25,307)
Proceeds from sale of premises and equipment	8,824	10,341
Net cash used in investing activities	(479,180)	(146,355)
Cash flows from financing activities:		
Net increase (decrease) in deposits	417	(316,429)
Net increase in federal funds purchased and securities sold under agreements to repurchase	471,158	388,658
Net increase in other short-term borrowings	8,862	34,250
Proceeds from issuance of notes payable	27	0
Payments of notes payable	0	(1,080)
Dividends paid	(8,019)	(4,026)
Proceeds from issuance of common stock	653	469
Disbursement for cash portion of merger		(121,299)
Net cash provided by (used in) financing activities	475,098	(19,457)
Net decrease in cash and due from banks	(6,371)	(169,495)
Cash and due from banks at beginning of period	311,384	347,619
Cash and due from banks at end of period	\$305,013	\$178,124

See accompanying notes to unaudited consolidated financial statements.

Notes to Consolidated Financial Statements
(Dollars in thousands, except per share information)

Note 1- Consolidation

The consolidated financial statements of BanPonce Corporation include the balance sheet of the Corporation and its wholly-owned subsidiaries, Velco, Metropolitana de Préstamos, Inc., Puerto Rico Parking Corp., BanPonce Financial Corp. and its wholly-owned subsidiary Spring Financial Services, Inc. and Barco Popular de Puerto Rico and its wholly-owned subsidiaries, Popular Leasing and Rental, Inc. and Popular Consumer Services, Inc., as of March 31, 1992 and December 31, 1991, and their related statements of income and cash flows for the quarters ended March 31, 1992 and 1991. These statements are, in the opinion of management, a fair statement of the results of the periods presented. These results are unaudited, but include all necessary adjustments for a fair presentation of such results.

Note 2- Investment Securities

The maturities and market value for the following investment securities as of March 31, 1992 are :

	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasury (average maturity of 1 year 9.3 months)	\$2,177,744	\$2,202,840
Obligations of other U.S. Government agencies and corporations (average maturity of 7.0 months)	214,639	218,345
Obligations of Puerto Rico, States and political subdivisions (average maturity of 5 years 5.8 months)	218,976	223,996
Others (average maturity 19 years 6.4 months)	<u>275,724</u>	<u>279,746</u>
	\$2,887,083	\$2,924,927
	*****	*****

Note 3- Pledged Assets

Securities and insured mortgage loans of the Corporation of \$1,723,761 (1991- \$1,383,946) are pledged to secure public and trust deposits and securities and mortgages sold under repurchase agreements.

Note 4- Commitments

In the normal course of business there are letters of credit outstanding and stand-by letters of credit which at March 31, 1992 amounted to \$19,409 and \$62,158, respectively. There are also outstanding other commitments and contingent liabilities, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. No losses are anticipated as a result of these transactions.

Note 5- Subordinated Notes

Subordinated notes consist of the following:

<i>10.00% Fixed Rate Notes, due in 1993</i>	<i>\$20,000</i>
<i>7.95% Fixed Rate Notes, due in 1994</i>	<i>12,000</i>
<i>8.50% Fixed Rate Notes, due in 1996</i>	<i>12,000</i>
<i>8.875% Fixed Rate Notes series A, due in 1996</i>	<i>15,000</i>
<i>8.6875% Fixed Rate Notes series B, due in 1996</i>	<i>15,000</i>
<i>Floating Rate Notes series A with interest payable at 88% of LIBID rate, due in 1996</i>	<i>19,000</i>
<i>Floating Rate Notes series B with interest payable at 86% of LIBID rate, due in 1996</i>	<i><u>1,000</u></i>
	<i>\$94,000</i>
	<i>*****</i>

Note 6- Preferred Stock of Subsidiary Bank

As of March 31, 1992, the subsidiary Bank has 200,000 shares of authorized preferred stock with a par value of \$100, of which 110,000 are issued and outstanding.

Note 7- Stockholders' Equity

Authorized common stock is 90,000,000 shares with a par value of \$6 per share of which 30,130,144 are issued and outstanding at March 31, 1992.

Note 8- Income tax

The income tax expense includes a tax provision of \$46 and \$54 in 1992 and 1991, respectively, related with the gains on sale of securities.

Note 9- Earnings per Share Basis

Earnings per share are based on 30,130,144 average shares outstanding during 1992 and 29,976,472 during 1991.

Note 10- Supplemental Disclosure on the Consolidated Statements of Cash Flows

During the quarter ended March 31, 1992 and 1991 the Corporation paid interest amounting to \$82,624 and \$98,958, respectively. In addition, the loans receivable transferred to other real estate and other property as of March 31, 1992, amounted to \$250 and \$1,505, respectively (1991 - \$260 and \$3,140).

FINANCIAL REVIEW

This financial review contains an analysis of the performance of BanPonce Corporation (the Corporation) and its subsidiaries, Banco Popular de Puerto Rico (the subsidiary Bank), including its wholly-owned subsidiaries Popular Leasing and Rental, Inc. and Popular Consumer Services, Inc., Vehicle Equipment Leasing Company, Inc. (VELCO), BanPonce Financial Corp. and its wholly-owned subsidiary Spring Financial Services, Inc. (Spring), Metropolitana de Préstamos, Inc. and Puerto Rico Parking Corporation. Spring, a consumer finance company, was acquired by BanPonce Financial Corp. on September 30, 1991. Prior to the acquisition of Spring, BanPonce Financial Corp. had no business activity. This financial review should be read in conjunction with the accompanying tables.

NET INCOME

Net income for the Corporation during the first three months of 1992 amounted to \$20.0 million, compared with \$17.7 million reported for the same period last year. Earnings per share amounted to \$0.66, based on 30,130,144 average shares outstanding during the first quarter of 1992. For the same quarter of 1991 earnings per share were \$0.59, based on 29,976,472 average shares then outstanding. Net income for the second, third and fourth quarter of 1991 was \$10.0 million, \$17.1 million and \$19.9 million, respectively.

For the three-month period ended March 31, 1992, return on assets and return on equity were 0.88% and 12.60%, respectively, compared with 0.81% and 12.04% reported for the same period in 1991. For the year ended December 31, 1991 these ratios were 0.72% and 10.57%, respectively.

NET INTEREST INCOME

Net interest income for the first quarter of 1992 rose to \$104.7 million as compared with \$99.7 million for the same period in 1991. This increase was achieved mainly through an increase of \$203 million in the average balance of earning assets, particularly investment securities, and an increase of 12 basis points in the net interest yield principally due to the reduction in the average cost of funds for the quarter.

On a taxable equivalent basis, net interest income increased to \$125.2 million for the three-month period ended March 31, 1992 from \$116.8 million for the same period in 1991, a positive fluctuation of \$8.4 million. This increase resulted from a variance of \$6.6 million due to volume and \$1.8 million due to yields. For analytical purposes, the interest earned on tax exempt assets is adjusted to a "taxable equivalent" basis assuming an income tax rate of 42% for both 1992 and 1991.

NET INTEREST INCOME
Taxable Equivalent Basis

(In Millions)	First Quarter 1992 Average		1991 Average	
	Balance	Rate	Balance	Rate
Earning assets	<u>\$8,397</u>	9.62%	<u>\$8,194</u>	10.80%
Financed by:				
Interest bearing funds	\$6,967	4.41%	\$6,809	6.14%
Non-interest bearing funds	<u>1,430</u>		<u>1,385</u>	
Total	<u>\$8,397</u>	3.66%	<u>\$8,194</u>	5.10%
Net interest income per books	\$104.7		\$ 99.7	
Taxable equivalent adjustment	<u>20.5</u>		<u>17.1</u>	
Net interest income on a taxable equivalent basis	<u>\$125.2</u>		<u>\$116.8</u>	
Spread		5.21%		4.66%
Net interest yield		5.96%		5.70%

The average yield on earning assets, on a taxable equivalent basis, decreased 116 basis points, to 9.62% during the first quarter of 1992 from 10.80% for the same period in 1991, while the average cost of funds decreased 144 basis points, averaging 3.66% for the first quarter of 1992, as compared with 5.10% for the same quarter a year ago. As a result, the net interest yield on a taxable equivalent basis increased to 5.96% from 5.70% a year before. This increase was mainly caused by a shift of funds from money market investments toward investment securities that provided a higher nominal and after-tax yield and the reduction in the cost of funds, as a result of the drop in interest rates at the end of 1991 and the revisions made to the pricing of various deposit products due to the prevailing interest rate environment.

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The provision for loan losses amounted to \$24.0 million for the first quarter of 1992, as compared with \$19.8 million for the first quarter of 1991. During the second, third and fourth quarter of 1991 the provision amounted to \$37.9 million, \$33.8 million and \$30.2 million, respectively. Net charge-offs for the quarter ended March 31, 1992 amounted to \$17.3 million, or 1.34% of average loans, compared with net charge-offs of \$32.2 million or 2.43% of average loans for the first quarter of 1991. For the second, third and fourth quarter of 1991 net charge-offs amounted to \$25.2 million, \$40.1 million and \$20.9 million, respectively. The composition of net charge-offs was as follows:

	Quarter Ended		
	March 31, 1992	March 31, 1991	December 31, 1991
	(In millions)		
Consumer	\$12.7	\$23.6	\$12.8
Commercial	4.7	6.9	6.1
Construction	-	1.1	-
Lease Financing	<u>(0.1)</u>	<u>0.6</u>	<u>2.0</u>
	<u>\$17.3</u>	<u>\$32.2</u>	<u>\$20.9</u>

Over the last two quarters we have seen a reduction in consumer delinquencies and, therefore, consumer loans charge-offs have declined significantly. This is a direct reflection of the steps taken during 1991 to improve the consumer credit underwriting and collection process. We expect the current level of consumer charge-offs to continue and probably decline further toward the end of the year. On the commercial side, charge-offs have remained at levels similar to those of 1991 with non-performing loans increasing slightly. Improvement is, to some extent, dependent on the local economic conditions, which so far, have not changed significantly.

As a result of the above, the allowance for loan losses as of March 31, 1992 increased to \$100.9 million or 1.95% of total loans, compared with \$77.5 million or 1.47% of total loans as of March 31, 1991, and \$94.2 million or 1.81% as of December 31, 1991. Given the uncertainty in the current economy, especially in the commercial sector, the Corporation has taken the position to continue strengthening the reserve levels, leading to the \$6.7 million increase in the allowance.

CREDIT QUALITY

The Corporation's policy is to place commercial loans on non-accrual status if payments of principal or interest are delinquent 60 days. Lease financing, conventional mortgage and close-end consumer loans are placed on non-accrual status if payments are delinquent 90 days. Close-end consumer loans are charged-off against the allowance when delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off if payments are delinquent 180 days. Further, certain loans, which would be treated as non-accrual loans pursuant to the foregoing policies are treated as accruing loans if they are considered well secured and in the process of collection.

Non-performing assets, which consist of non-accrual loans, renegotiated loans and other real estate, amounted to \$142.3 million or 2.75% of total loans as of March 31, 1992, compared with \$129.2 million or 2.44% of total loans as of the same date last year. Most of the increase was in the commercial and leasing portfolios which increased \$13.8 million and \$8.0 million, respectively, partially offset by a decrease of \$11.0 million in the consumer portfolio. Non-performing assets for the second, third and fourth quarter of 1991 were \$139.3 million, \$163.4 million and \$136.3 million, respectively, representing 2.62%, 3.07% and 2.62% of total loans.

Assuming standard industry practice of placing commercial loans on non-accrual status when payments are past due 90 days or more, and excluding past due consumer loans from non-accruing loans, non-performing assets as of March 31, 1992 amounted to \$106.9 million or 2.06% of total loans. The allowance for loan losses as a percent of adjusted non-performing assets was 94.4% as of March 31, 1992. These ratios compare with 1.83% and 98.9%, respectively, as of December 31, 1991.

Accruing loans which are contractually past due 90 days or more as to principal or interest amounted to \$29.4 million as of the end of this quarter as compared with \$32.7 million as of the end of the previous quarter. Renegotiated loans at March 31, 1992 amounted to \$2.9 million, of which \$2.4 million are in non-accrual status. All renegotiated loans are classified as non-performing assets.

FEES AND OTHER INCOME

Fees and other income, excluding securities and trading gains, rose to \$30.0 million for the quarter ended March 31, 1992 from \$24.4 million for the same period in 1991, an increase of \$5.6 million. Most of this increase was in service charges on deposit accounts which grew to \$16.0 million for the three-month period ended March 31, 1992 from \$12.0 million reported for the same period in 1991, an increase of \$4.0 million or 33%. One of the major factors for this rise was the increase in service charges on returned checks effective in July 1991. Also, an increase in volume and the pricing revisions made to various liability products during the quarter led to increases in service charges in checking accounts.

Other service fees increased by \$1.1 million mostly in credit cards, mortgage servicing, and fiduciary activities, due to increases in volume. For the first quarter of 1992, these revenues also include \$0.3 million in fees realized by Spring. Other operating income increased \$0.6 million, basically due to increases in the revenues from operational leases and gains on the sales of daily rental units realized by the leasing subsidiaries.

During the first quarter of 1992 the Corporation realized gains on securities and trading transactions amounting to \$0.3 million as compared with \$0.4 million for the same period last year.

OPERATING EXPENSES

Operating expenses of the Corporation increased \$1.9 million or 2.2%, amounting to \$86.5 million for the first three months of 1992. Of this amount \$1.3 million corresponds to the operating expenses of Spring, which did not become a subsidiary of the Corporation until September 30, 1991. Excluding Spring's expenses, the increase in operating expenses was only 0.6%.

Personnel costs for the three-month period ended March 31, 1992 amounted to \$46.4 million as compared with \$45.8 million for the same period in 1991. This fluctuation resulted mainly from the inclusion of \$0.7 million in personnel costs of Spring and the rise of \$0.8 million in the profit sharing expense of the subsidiary Bank due to the improvement in its profitability ratios. Salary expense decreased \$0.3 million, from \$33.2 million to \$32.9 million. Excluding Spring's salary expense, the reduction in salaries was \$0.9 million or 2.7%.

All other operating expenses increased \$1.2 million or 3.1% from \$38.9 million for the first quarter of 1991 to \$40.1 million for the same period in 1992. Spring's other operating expenses accounted for \$0.6 million of this increase. Major fluctuations in other operating expenses were in sundry losses, which increased by \$1.0 million, FDIC insurance cost, which increased \$0.4 million due to the higher assessment rate effective in July 1991, and amortization of intangibles that increased \$0.5 million due to the intangibles recognized on Spring's acquisition and the additional intangibles recognized at year-end upon completion of the analysis of the fair value of the net assets acquired through the merger.

The increase of \$2.1 million in the income tax expense relates to the higher operational income, the tax loss realized in the first quarter of 1991 on the sale of the LDC loans acquired through the merger, and the decrease of \$14.9 million in net charge-offs during the first three months of 1992.

BALANCE SHEET COMMENTS

Total assets as of March 31, 1992 reached \$9,241 million as compared with \$8,971 million as of the same date last year. Average total assets amounted to \$9,138 million for the quarter, or \$238 million over the \$8,900 million reported for the same quarter last year. Average earnings assets increased \$203 million to \$8,397 million, from \$8,194 million for the first quarter of 1991.

Average money market, investment and trading securities increased \$347 million to \$3,237 million for the quarter ended March 31, 1992, while average total loans decreased \$144 million to \$5,160 million. Most of the decrease in the loan portfolio was in consumer loans which declined 6.9% or \$151 million, on average, mainly due to tighter credit standards, the low yield in new personal loans resulting from the interest rate formula applicable in Puerto Rico until the middle of this quarter and a lower demand, partially offset by the increase of \$65 million in consumer loans through the acquisition of Spring. The average commercial loan portfolio also decreased \$65 million, as compared with the first quarter of 1991, due to the transfer of \$22 million through the sale of the three branches on July 1991 to comply with the requirements of the Federal Reserve Board for the approval of the merger, and the sale of \$69 million in leases by one of the leasing subsidiaries through a Grantor's Trust during the last quarter of 1991. Partially offsetting these decreases were increases in the average construction and mortgage portfolios of \$17 million and \$55 million, respectively.

Average interest bearing deposits for the quarter remained steady at \$5,914 million, compared with \$5,926 million for the same quarter last year. However, there was a change in the mix of deposits with savings and NOW accounts increasing \$408 million and certificates of deposit decreasing \$420 million. Average non-interest bearing deposits increased \$35 million to \$1,416 million for the quarter ended on March 31, 1992. During the quarter federal funds purchased and securities sold under agreement to repurchase increased \$471 million as a result of assets and liabilities management funding and investment activities. Other interest bearing liabilities for the quarter, on average, were \$169 million higher than last year, reaching \$1,052 million. The latter increased mostly due to the issuance of \$95 million in medium-term notes to finance the acquisition and operations of Spring.

Stockholders' equity at March 31, 1992 amounted to \$646 million, compared with \$601 million as of March 31, 1991. Most of the increase was obtained through earnings retention. Book value per share increased to \$21.46 as of March 31, 1992, compared with \$20.05 as of the same date last year. The dividend payout ratio for the quarter was 30.06%. The Corporation's Tier I, total capital and leverage ratios at March 31, 1992 were 11.44%, 13.80% and 6.75%, respectively. These ratios have been calculated giving effect to the full implementation of the 1992 guidelines and are well in excess of the regulatory minimums of 4%, 8% and 3%, respectively.

Part II - Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

<u>Exhibit No.</u>	<u>Description Exhibit</u>	<u>Reference</u>
20	Quarterly Report to shareholders for period ending March 31, 1992	Exhibit "A"

(b) No report on Form 8-K was filed for the three months ended March 31, 1992

SIGNATURE

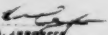
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be filed on its behalf by the undersigned thereto duly authorized.

SanPonce Corporation
(Registrant)

Date:

5/17/92

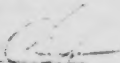
By:


Jorge A. Sanchez
Executive Vice President

Date:

1/4/92

By:


Orlando Herges
Senior Vice President
& Comptroller

1997-1998

CONSTRUCTION

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Quarterly Report

Financial Highlights

(Dollars in thousands, except per share information)

March 31,	1992	1991
Quarter ended		
Net Interest Income	\$104,700	\$99,701
Provision for Loan Losses	24,820	19,793
Net Income	26,024	17,675
Per Common Share	0.98	0.59
Return on Assets		
Return on Assets	0.88%	0.81%
Return on Stockholders' Equity	12.80%	12.04%
At March 31,		
Total Assets	\$9,241,304	\$8,971,476
Total Deposits	7,297,534	7,106,282
Loans	5,179,902	5,285,064
Stockholders' Equity	646,489	601,033
Book Value Per Share	21.48	20.05

To Our Stockholders

SanPonce Corporation's results for the first quarter of 1992 are very encouraging. Net income reached \$20.0 million, return on average assets (ROA) 0.88% and return on average equity (ROE) 12.80%. This compares with a net income of \$17.7 million in the first quarter of 1991 and an ROA and ROE of 0.81% and 12.04%, respectively.

Of particular significance was the increase of \$5.0 million in net interest income despite the low interest rate environment that has prevailed; the increase of \$5.6 million or 23% in fees and other income; a fairly stable operating expense that grew only 2.2% despite the inclusion of the operating expenses of the recently acquired finance subsidiary, Spring Financial; the increase in FDIC costs and the growth in the profit sharing expense due to the improvement in profitability ratios; and the reduction in net charge-offs to 1.34% of loans from 2.23% for the year 1991. The allowance for loan losses has also increased, reaching \$100.9 million or 1.95% of total loans, as compared with \$94.2 million or 1.81% of loans as of December 31, 1991, strengthening furthermore the Corporation's position.

On the other hand, non-performing assets increased slightly from \$136.3 million as of December 31, 1991, to \$142.3 million as of March 31, 1992. The increase was basically in commercial loans and lease financing. As a percentage of loans, non-performing assets represented 2.62% as of December 31, 1991, and 2.75% as of March 31, 1992. These figures remain in line with the top performers of our peer group. When adjusted to exclude commercial loans less than 90 days past due and consumer installment loans on non-accrual, in order to conform to standard industry practice, non-performing assets amounted to \$106.9 million or 2.06% of total loans.

Our capital position continues to be strong with a total capital of \$646 million, for an equity to assets ratio of 6.98% as of March 31, 1992, compared with 6.69% for the first quarter of 1991 and 6.83% for the year 1991. Our Tier I and total capital ratios to risk-adjusted assets as of March 31, 1992 were 11.44% and 13.80%, respectively, and the leverage ratio grew to 6.75%. Our stock performed extremely well during the quarter, increasing its market value from \$19.25 as of December 31, 1991, to \$24.00 as of March 31, 1992. Book value per share also grew from \$21.00 at the end of 1991 to \$21.46 as of March 31, 1992.

We are starting to realize the benefits of our recent merger. Emphasis is being maintained

in executing our business plans and completing the streamline of our operations. We are confident that if the economy continues its slow recovery, the Corporation's results should maintain this positive trend.

Please refer to the financial review section of this quarterly report for a more detailed discussion of the Corporation's financial performance and results of operations.

During this quarter, Puerto Rico regulatory authorities liberalized the maximum interest rates that could be charged on personal and small business loans on the island. Previously, rates could not exceed 130% of the average prime rate for the most recent three months. Rates will now be determined by market forces. Regulatory authorities have indicated that they will review the effect of these changes in a four-month period.

We continue our efforts of providing more convenience and improved services to our customers. At the beginning of April we launched our point-of-sale (POS) service project with the installation of the system at two Pueblo Supermarket sites. This project will be expanded shortly and will enhance our dominant position in the retail market.

During March you were mailed the 1991 annual report, including the Corporation's audited financial statements together with management's discussion and analysis of the results of operations.

The annual stockholders meeting has been scheduled for April 23, 1992, at Popular Center Building. We look forward to seeing you at the meeting.



Alberto M. Paracchini
Chairman of the Board



Richard L. Camón
President

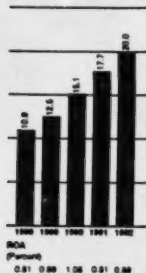
Financial Review

Balance Sheet Highlights (In thousands)	At March 31,			Average for the quarter		
	1992	1991	Change	1992	1991	Change
Money market investments	\$ 418,576	\$ 837,912	(\$421,336)	\$ 807,912	\$ 914,063	(\$306,151)
Investment and trading securities	3,892,472	2,201,849	890,623	2,829,580	1,978,039	653,541
Loans	8,178,802	5,285,064	(105,482)	5,159,803	5,303,825	(144,022)
All other assets	752,804	946,951	106,003	740,958	705,709	35,249
Total assets	8,241,304	8,971,478	269,828	8,138,253	8,898,636	238,817
Non-interest bearing liabilities	1,302,109	1,377,911	124,106	1,321,914	1,483,984	37,530
Interest bearing liabilities	7,081,726	6,981,532	100,194	6,985,581	6,809,367	157,194
Preferred stock of subsidiary Bank	11,000	11,000		11,000	11,000	
Stockholders' equity	848,469	601,033	45,436	839,178	595,285	43,893

Operating Highlights (In thousands)	First Quarter		
	1992	1991	Change
Net interest income	\$104,700	\$99,701	\$4,999
Provision for loan losses	24,020	19,783	4,237
Fees and other income	30,344	24,815	5,529
Operating expenses	91,000	87,058	3,942
Net income	\$ 20,024	\$17,875	\$2,349

Selected Statistical Information		First Quarter	
		1992	1991
Profitability Ratios -	Return on assets	0.89%	0.81%
	Return on earning assets	0.96	0.87
	Return on equity	12.60	12.04
	Net interest spread (taxable equivalent)	5.21	4.66
	Net interest yield (taxable equivalent)	5.96	5.70
	Tax rate	17.49	10.81
	Overhead ratio	53.65	60.03
Capitalization Ratios -	Equity to assets	8.99%	6.69%
	Tangible equity to assets	5.58	5.28
	Equity to loans	12.39	11.22
	Internal capital generation	8.76	7.85
	Tier I capital to risk-adjusted assets	11.44	10.38
	Total capital to risk-adjusted assets	13.80	13.15
Asset Quality Ratios -	Leverage ratio	6.75	6.54
	Net charge-offs to loans	1.34%	2.43%
	Provision to net charge-offs	1.39x	0.81x
	Net charge-offs earnings coverage	2.80	1.24
	Allowance for losses to loans	1.93%	1.47%
	Allowance to non-performing assets	76.92	60.02
Common Stock Data -	Non-performing assets to loans	2.75	2.44
	Non-performing assets to total assets	1.54	1.44
	Market price		
	High	\$25.50	\$17.75
	Low	19.75	14.75
	Book value at period end	21.46	20.05
	Dividends declared	0.20	0.20
	Dividend payout ratio	30.06%	22.78%

Net Interest
Income
Quarters Ended March 31
In Millions



Financial Review

This financial review contains an analysis of the performance of BanPonce Corporation (the Corporation) and its subsidiaries, Banco Popular de Puerto Rico (the subsidiary Bank), including its wholly-owned subsidiaries Popular Leasing and Rental, Inc. and Popular Consumer Services, Inc., Vehicle Equipment Leasing Company, Inc. (VELCO), BanPonce Financial Corp. and its wholly-owned subsidiary Spring Financial Services, Inc. (Spring), Metropolitana de Préstamos, Inc. and Puerto Rico Parking Corporation. Spring, a consumer finance company, was acquired by BanPonce Financial Corp. on September 30, 1991. Prior to the acquisition of Spring, BanPonce Financial Corporation had no business activity.

This Financial Review should be read in conjunction with the accompanying tables and graphs.

Net Income

Net income for the Corporation during the first three months of 1992 amounted to \$20.0 million, compared with \$17.7 million reported for the same period last year. Earnings per share amounted to \$0.68, based on 30,130,144 average shares outstanding during the first quarter of 1992. For the same quarter of 1991 earnings per share were \$0.59, based on 29,976,472 average shares then outstanding. Net income for the second, third and fourth quarter of 1991 was \$10.0 million, \$17.1 million and \$19.9 million, respectively.

For the three-month period ended March 31, 1992, return on assets and return on equity were 0.88% and 12.60%, respectively, compared with 0.81% and 12.04% reported for the same period in 1991. For the year ended December 31, 1991 these ratios were 0.72% and 10.57%, respectively.

Net Interest Income

Net interest income for the first quarter of 1992 rose to \$104.7 million as compared with \$99.7 million for the same period in 1991. This increase was achieved mainly through an increase of \$203 million in the average balance of earning assets, particularly investment securities, and an increase of 12 basis points in the net interest yield principally due to the reduction in the average cost of funds for the quarter.

On a taxable equivalent basis, net interest income increased to \$125.2 million for the three-month period ended March 31, 1992 from \$116.8 million for the same period in 1991, a positive fluctuation of \$8.4 million. This increase resulted from a variance of \$8.6 million due to volume and \$1.8 million due to yields. For analytical purposes, the interest earned on tax exempt assets is adjusted to a "taxable equivalent" basis assuming an income tax rate of 42% for both 1992 and 1991.

Net Interest Income Taxable Equivalent Basis

(In Millions)	First Quarter			
	1991 Average		1992 Average	
	Balance	Rate	Balance	Rate
Earning assets	\$ 8,387	9.62%	\$ 9,194	10.80%
Financed by:				
Interest bearing funds	\$ 8,967	4.41%	\$ 9,809	6.14%
Non-interest bearing funds	1,430		1,385	
Total	\$ 8,387	3.66%	\$ 9,194	5.10%
Net interest income per basis	\$ 104.7		\$ 99.7	
Taxable equivalent adjustment	20.5		-	
Net interest income on a taxable equivalent basis	\$ 125.2		\$ 116.8	
Spread	5.21%		4.66%	
Net interest yield	5.98%		5.70%	

The average yield on earning assets, on a taxable equivalent basis, decreased 118 basis points, to 9.62% during the first quarter of 1992 from 10.80% for the same period in 1991, while the average cost of funds decreased 144 basis points, averaging 3.66% for the first quarter of 1992, as compared with 5.10% for the same quarter a year ago. As a result, the net interest yield on a taxable equivalent basis increased to 5.98% from 5.70% a year before. This increase was mainly caused by a shift of funds from money market investments toward investment securities that provided a higher nominal and after-tax yield and the reduction in the cost of funds, as a result of the drop in interest rates at the end of 1991 and the revisions made to the pricing of various deposit products due to the prevailing

interest rate environment.

Provision and Allowance for Loan Losses

The provision for loan losses amounted to \$24.0 million for the first quarter of 1992, as compared with \$19.8 million for the first quarter of 1991. During the second, third and fourth quarter of 1991 the provision amounted to \$37.9 million, \$33.8 million and \$30.2 million, respectively. Net charge-offs for the quarter ended March 31, 1992 amounted to \$17.3 million, or 1.34% of average loans, compared with net charge-offs of \$32.2 million or 2.43% of average loans for the first quarter of 1991. For the second, third and fourth quarter of 1991 net charge-offs amounted to \$25.2 million, \$40.1 million and \$20.9 million, respectively. The composition of net charge-offs was as follows:

	Quarter Ended		
	March 31, 1992	March 31, 1991	December 31, 1991
	(in millions)		
Consumer	\$ 12.7	\$ 25.4	\$ 12.8
Commercial	4.7	8.9	8.1
Construction	-	1.1	-
Lease Financing	(0.1)	0.8	2.0
	<u>\$ 17.3</u>	<u>\$ 32.2</u>	<u>\$ 20.9</u>

Over the last two quarters we have seen a reduction in consumer delinquencies and, therefore, consumer loans charge-offs have declined significantly. This is a direct reflection of the steps taken during 1991 to improve the consumer credit underwriting and collection process. We expect the current level of consumer charge-offs to continue and probably decline further toward the end of the year. On the commercial side, charge-offs have remained at levels similar to those of 1991 with non-performing loans increasing slightly. Improvement is, to some extent, dependent on the local economic conditions, which so far, have not changed significantly.

As a result of the above, the allowance for loan losses as of March 31, 1992 increased to \$100.9 million or 1.95% of total loans, compared with \$77.5 million or 1.47% of total loans as of March 31, 1991, and \$94.2 million or 1.81% as of December 31, 1991. Given the uncertainty in the current economy, the Corporation has taken the position to continue strengthening the

reserve levels, leading to the \$6.7 million increase in the allowance.

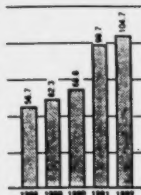
Credit Quality

The Corporation's policy is to place commercial loans on non-accrual status if payments of principal or interest are delinquent 60 days. Lease financing, conventional mortgage and close-end consumer loans are placed on non-accrual status if payments are delinquent 90 days. Close-end consumer loans are charged-off against the allowance when delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off if payments are delinquent 180 days. Further, certain loans, which would be treated as non-accrual loans pursuant to the foregoing policies are treated as accruing loans if they are considered well secured and in the process of collection.

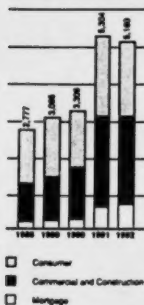
Non-performing assets, which consist of non-accrual loans, renegotiated loans and other real estate, amounted to \$142.3 million or 2.75% of total loans as of March 31, 1992, compared with \$129.2 million or 2.44% of total loans as of the same date last year. Most of the increase was in the commercial and leasing portfolios which increased \$13.8 million and \$8.0 million, respectively, partially offset by a decrease of \$11.0 million in the consumer portfolio. Non-performing assets for the second, third and fourth quarter of 1991 were \$139.3 million, \$163.4 million and \$136.3 million, respectively, representing 2.62%, 3.07% and 2.62% of total loans.

Assuming standard industry practice of placing commercial loans on non-accrual status when payments are past due 90 days or more, and excluding past due consumer loans from non-accruing loans, non-performing assets as of March 31, 1992 amounted to \$106.9 million or 2.06% of total loans. The allowance for loan losses as a percent of adjusted non-performing assets was 94.4% as of March 31, 1992. These ratios compare with 1.83% and 98.9%, respectively, as of December 31, 1991.

Accruing loans which are contractually past due 90 days or more as to principal or interest amounted to \$29.4 million as of the end of this quarter as compared with \$32.7 million as of the end of the previous quarter. Renegotiated loans at March 31, 1992 amounted to \$2.9 million, of which



Average Loans by Type
Quarters Ended March 31
In Millions



\$2.4 million are in non-accrual status. All renegotiated loans are classified as non-performing assets.

Fees and Other Income

Fees and other income, excluding securities and trading gains, rose to \$30.0 million for the quarter ended March 31, 1992 from \$24.4 million for the same period in 1991, an increase of \$5.6 million. Most of this increase was in service charges on deposit accounts which grew to \$16.0 million for the three-month period ended March 31, 1992 from \$12.0 million reported for the same period in 1991, an increase of \$4.0 million or 33%. One of the major factors for this rise was the increase in service charges on returned checks effective in July 1991. Also, an increase in volume and the pricing revisions made to various liability products during the quarter led to increases in service charges in checking accounts.

Other service fees increased by \$1.1 million mostly in credit cards, mortgage servicing, and fiduciary activities, due to increases in volume. For the first quarter of 1992, these revenues also include \$0.3 million in fees realized by Spring. Other operating income increased \$0.6 million, basically due to increases in the revenues from operational leases and gains on the sales of daily rental units realized by the leasing subsidiaries.

During the first quarter of 1992 the Corporation realized gains on securities and trading transactions amounting to \$0.3 million as compared with \$0.4 million for the same period last year.

Operating Expenses

Operating expenses of the Corporation increased \$1.9 million or 2.2%, amounting to \$86.5 million for the first three months of 1992. Of this amount \$1.3 million corresponds to the operating expenses of Spring, which did not become a subsidiary of the Corporation until September 30, 1991. Excluding Spring's expenses, the increase in operating expenses was only 0.6%.

Personnel costs for the three-month period ended March 31, 1992 amounted to \$46.4 million, as compared with \$45.8 million for the same period in 1991. This fluctuation resulted mainly from the inclusion of \$0.7 million in personnel costs of Spring and the rise of \$0.8 million in the profit sharing

expense of the subsidiary Bank due to the improvement in its profitability ratios. Salary expense decreased \$0.3 million, from \$33.2 million to \$32.9 million. Excluding Spring's salary expense, the reduction in salaries was \$0.9 million or 2.7%.

All other operating expenses increased \$1.2 million or 3.1% from \$38.9 million for the first quarter of 1991 to \$40.1 million for the same period in 1992. Spring's other operating expenses accounted for \$0.6 million of this increase. Major fluctuations in other operating expenses were in sundry losses, which increased by \$1.0 million, FDIC insurance cost, which increased \$0.4 million due to the higher assessment rate effective in July 1991, and the amortization of intangibles that increased \$0.5 million due to the intangibles recognized on Spring's acquisition and the additional intangibles recognized at year-end upon completion of the analysis of the fair value of the net assets acquired through the merger.

The increase of \$2.1 million in the income tax expense relates to the higher operational income, the tax loss realized in the first quarter of 1991 on the sale of the LDC loans acquired through the merger, and the decrease of \$14.9 million in net charge-offs during the first three months of 1992.

Balance Sheet Comments

Total assets as of March 31, 1992 reached \$9,241 million, as compared with \$8,971 million as of the same date last year. Average total assets amounted to \$9,138 million for the quarter, or \$238 million over the \$8,900 million reported for the same quarter last year. Average earning assets increased \$203 million to \$8,397 million, from \$8,194 million for the first quarter of 1991.

Average money market, investment and trading securities increased \$347 million to \$3,237 million for the quarter ended March 31, 1992, while average total loans decreased \$144 million to \$5,160 million. Most of the decrease in the loan portfolio was in consumer loans which declined 6.9% or \$151 million, on average, mainly due to tighter credit standards, the low yield in new personal loans resulting from the interest rate formula applicable in Puerto Rico until the middle of this quarter and a lower demand, partially offset by the

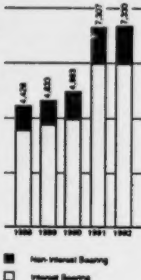
increase of \$65 million in consumer loans through the acquisition of Spring. The average commercial loan portfolio also decreased \$65 million, as compared with the first quarter of 1991, due to the transfer of \$22 million through the sale of three branches in July 1991 to comply with the requirements of the Federal Reserve Board for the approval of the merger, and the sale of \$69 million in leases by one of the leasing subsidiaries through a Grantor's Trust during the last quarter of 1991. Partially offsetting these decreases were increases in the average construction and mortgage portfolios of \$17 million and \$55 million, respectively.

Average interest bearing deposits for the quarter remained steady at \$5,914 million, compared with \$5,926 million for the same quarter last year. However, there was a change in the mix of deposits with savings and NOW accounts increasing \$408 million and certificates of deposit decreasing \$420 million. Average non-interest bearing deposits increased \$35

million to \$1,418 million for the quarter ended March 31, 1992. Other interest bearing liabilities for the quarter, on average, were \$189 million higher than last year, reaching \$1,052 million. The latter increased mostly due to the issuance of \$95 million in medium-term notes to finance the acquisition and operations of Spring.

Stockholders' equity at March 31, 1992 amounted to \$648 million, compared with \$601 million as of March 31, 1991. Most of the increase was obtained through earnings retention. Book value per share increased to \$21.46 as of March 31, 1992, compared with \$20.05 as of the same date last year. The dividend payout ratio for the quarter was 30.06%. The Corporation's Tier I, total capital and leverage ratios at March 31, 1992 were 11.44%, 13.80% and 6.75%, respectively. These ratios have been calculated giving effect to the full implementation of the 1992 guidelines and are well in excess of the regulatory minimums of 4%, 8% and 3%, respectively.

Average Deposits
Quarters Ended March 31
in Millions



Consolidated Statements of Condition

(In thousands)	March 31,	
	1992	1991
ASSETS		
Cash and due from banks	\$ 305,013	\$ 178,124
Money market investments:		
Federal funds sold and securities and mortgages		
purchased under agreements to resell	84,713	60,603
Time deposits with other banks	350,100	775,208
Bankers' acceptances	1,793	2,101
	<u>418,576</u>	<u>837,912</u>
Investment securities (Notes 2 and 3):		
U.S. Treasury securities	2,177,744	1,404,335
Obligations of other U.S. Government agencies and		
corporations	214,639	335,799
Obligations of P.R., States and political subdivisions	218,978	216,948
Other	275,724	238,335
	<u>2,887,083</u>	<u>2,195,415</u>
Trading account securities, at market	5,389	6,434
Loans (Note 3)	5,548,083	5,693,232
Less—Unearned income	388,481	408,168
Allowance for loan losses	100,897	77,530
	<u>5,078,705</u>	<u>5,207,534</u>
Premises and equipment	254,598	251,325
Other real estate	8,321	6,668
Customers' liabilities on acceptances	1,008	1,454
Accrued income receivable	85,787	78,873
Other assets	86,042	77,970
Intangible assets	134,808	129,787
	<u>\$ 9,241,304</u>	<u>\$ 8,971,476</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 1,398,448	\$ 1,254,060
Interest bearing	5,811,089	5,852,222
	<u>7,207,534</u>	<u>7,106,282</u>
Federal funds purchased and securities sold		
under agreements to repurchase (Note 3)	920,272	782,805
Other short-term borrowings	152,588	215,567
Notes payable	73,780	8,938
Senior debentures	30,000	30,000
Acceptances outstanding	1,008	1,454
Other liabilities	104,857	122,397
	<u>8,489,835</u>	<u>8,265,443</u>
Subordinated notes (Note 5)	94,800	94,000
Preferred stock of subsidiary Bank (Note 6)	11,000	11,000
Stockholders' equity (Note 7):		
Common stock	180,781	179,859
Surplus	287,974	276,314
Retained earnings	124,285	104,860
Capital reserves	53,429	40,000
	<u>646,469</u>	<u>601,033</u>
	<u>\$ 9,241,304</u>	<u>\$ 8,971,476</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share information)	Quarter ended March 31,	
	1992	1991
INTEREST INCOME:		
Loans	\$129,905	\$148,906
Money market investments	8,503	16,687
Investment securities	43,109	38,442
Trading account securities	84	175
	<u>181,575</u>	<u>204,210</u>
INTEREST EXPENSE:		
Deposits	84,978	89,046
Short-term borrowings	8,383	12,481
Long-term debt	3,518	2,982
	<u>78,875</u>	<u>104,509</u>
Net interest income	104,700	99,701
Provision for loan losses	24,020	19,783
Net interest income after provision for loan losses	80,680	79,918
Service charges on deposit accounts	15,989	12,021
Other service fees	9,873	8,755
Gain on sale of securities	210	248
Trading account profit	87	190
Other operating income	4,185	3,603
	<u>111,024</u>	<u>104,733</u>
OPERATING EXPENSES:		
Personnel costs		
Salaries	32,925	33,234
Profit sharing	4,181	3,401
Pension and other benefits	9,319	9,134
	<u>46,405</u>	<u>45,769</u>
Net occupancy expense	5,804	5,718
Equipment expenses	5,539	5,743
Other taxes	3,327	3,842
Professional fees	4,772	4,771
Communications	4,183	4,132
Business promotion	2,058	2,259
Printing and supplies	1,775	1,884
Other operating expenses	9,149	7,709
Amortization of intangibles	3,531	3,036
	<u>86,521</u>	<u>84,663</u>
Income before tax and dividends on preferred stock of subsidiary Bank	24,503	20,070
Income tax (Note 8)	4,286	2,169
Income before dividends on preferred stock of subsidiary Bank	20,217	17,901
Dividends on preferred stock of subsidiary Bank	193	226
NET INCOME	<u>\$ 20,024</u>	<u>\$ 17,675</u>
Earnings per share (Note 9)	<u>\$0.66</u>	<u>\$0.59</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

	For the quarter ended March 31,	
(In thousands)	1992	1991
Cash flows from operating activities:		
Net income	\$ 20,024	\$ 17,675
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization of premises and equipment	6,705	5,687
Provision for loan losses	24,020	19,783
Amortization of intangibles	3,531	3,036
Gain on sale of investment securities and other	(210)	(246)
Gain on sale of premises and equipment	(686)	(31)
Amortization of premiums and accretion of discounts on investments	133	(101)
Amortization of deferred loan fees and costs	257	161
Net increase in trading securities	(3,732)	(5,558)
Net increase in interest receivable	(8,740)	(19,768)
Net increase in other assets	(11,492)	(13,956)
Net (decrease) increase in interest payable	(5,407)	4,422
Net increase in income tax payable	3,731	1,432
Net decrease in other liabilities	(32,423)	(16,219)
Total adjustments	(22,313)	(21,358)
Net cash used in operating activities	(2,289)	(3,683)
Cash flows from investing activities:		
Net decrease in money market investments	84,758	97,432
Maturities of investment securities	1,180,799	834,591
Sales of investment securities	5,144	288,317
Purchases of investment securities	(1,894,938)	(1,400,833)
Net (disbursements) receipts on loans	(3,379)	49,104
Acquisition of premises and equipment	(14,385)	(25,307)
Proceeds from sale of premises and equipment	6,824	10,341
Net cash used in investing activities	(479,180)	(146,355)
Cash flows from financing activities:		
Net increase (decrease) in deposits	417	(316,429)
Net increase in federal funds purchased and securities sold under agreements to repurchase	471,158	388,658
Net increase in short-term borrowings	8,962	34,250
Proceeds from issuance of notes payable	27	
Payments of notes payable		(1,080)
Dividends paid	(8,019)	(4,026)
Proceeds from issuance of common stock	853	469
Disbursement for cash portion of merger		(121,299)
Net cash provided by (used in) financing activities	475,098	(10,457)
Net decrease in cash and due from banks	(8,371)	(169,495)
Cash and due from banks at beginning of period	311,384	347,619
Cash and due from banks at end of period	\$ 305,013	\$ 178,124

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share information)

Note 1 - Consolidation

The consolidated financial statements of BanPonce Corporation include the balance sheet of the Corporation and its wholly-owned subsidiaries, Velco, Metropolitana de Préstamos, Inc., Puerto Rico Parking Corp., BanPonce Financial Corp. and its wholly-owned subsidiary Spring Financial Services, Inc. and Banco Popular de Puerto Rico and its wholly-owned subsidiaries, Popular Leasing and Rental, Inc. and Popular Consumer Services, Inc., as of March 31, 1992, and their related statements of income and cash flows for the quarter then ended, together with the comparative figures for 1991. These statements are, in the opinion of management, a fair statement of the results of the periods presented. These results are unaudited, but include all necessary adjustments for a fair presentation of such results.

Note 2 - Investment Securities

The maturities and market value for the following investment securities as of March 31, 1992 are:

	Book Value	Market Value
U.S. Treasury (average maturity of 1 year 9.3 months)	\$2,177,744	\$2,202,840
Obligations of other U.S. Government agencies and corporations (average maturity of 7.0 months)	214,639	218,345
Obligations of Puerto Rico, States and political subdivisions (average maturity of 5 years 5.8 months)	218,976	223,996
Others (average maturity of 19 years 6.4 months)	275,724	279,746
	<u>\$2,887,083</u>	<u>\$2,924,927</u>

Note 3 - Pledged Assets

Securities and insured mortgage loans of the Corporation of \$1,723,761 (1991 - \$1,383,946) are pledged to secure public and trust deposits and securities and mortgages sold under repurchase agreements.

Note 4 - Commitments

In the normal course of business there are letters of credit outstanding and stand-by letters of credit which at March 31, 1992 amounted to \$19,409 and \$62,158, respectively. There are also outstanding other commitments and contingent liabilities, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. No losses are anticipated as a result of these transactions.

Note 5 - Subordinated Notes

Subordinated notes consist of the following:

10.00% Fixed Rate Notes, due in 1993	\$20,000
7.95% Fixed Rate Notes, due in 1994	12,000
8.50% Fixed Rate Notes, due in 1996	12,000
8.875% Fixed Rate Notes series A, due in 1996	15,000
8.6875% Fixed Rate Notes series B, due in 1996	15,000
Floating Rate Notes series A with interest payable at 88% of LIBID rate, due in 1996	19,000
Floating Rate Notes series B with interest payable at 86% of LIBID rate, due in 1996	1,000
	<u>\$94,000</u>

Note 6 - Preferred Stock of Subsidiary Bank

As of March 31, 1992, the subsidiary Bank has 200,000 shares of authorized preferred stock with a par value of \$100, of which 110,000 are issued and outstanding.

Note 7 - Stockholders' Equity

Authorized common stock is 90,000,000 shares with a par value of \$6 per share of which 30,130,144 are issued and outstanding at March 31, 1992.

Note 8 - Income Tax

The income tax expense includes a tax provision of \$46 and \$54 in 1992 and 1991, respectively, related with the gains on sale of securities.

Note 9 - Earnings per Share Basis

Earnings per share are based on 30,130,144 average shares outstanding during 1992 and 29,976,472 during 1991.

Note 10 - Supplemental Disclosure on the Consolidated Statements of Cash Flows

During the quarter ended March 31, 1992 and 1991 the Corporation paid interest amounting to \$82,624 and \$98,958, respectively. In addition, the loans receivable transferred to other real estate and other property as of March 31, 1992, amounted to \$250 and \$1,505, respectively (1991 - \$260 and \$3,140).

Central Office

Banco Popular Center, Hato Rey
San Juan, Puerto Rico 00919
Telephone: (809) 785-9800

Los Angeles Office

354 South Spring St.
Los Angeles, California 90013
Telephone: (213) 626-1160

New York Office

7 West 51st St.
New York, N.Y. 10019
Telephone: (212) 315-2800

U.S. Virgin Islands Offices

St. Croix
17 Church St.
Christiansted, St. Croix
U.S. Virgin Islands 00820
Telephone: (809) 774-7822

Chicago Office

2525 North Kedzie Avenue
Chicago, Illinois 60647
Telephone: (312) 772-0010

St. Thomas

70 Kronprindsens Gade
Charlotte Amalie, St. Thomas
U.S. Virgin Islands 00801
Telephone: (809) 776-7800

Board of Directors

Alberto M. Paraochini, Chairman
Alfonso F. Ballester, Vice-Chairman
Manuel Luis del Valle, Vice-Chairman
Antonio Luis Farré, Vice-Chairman
Juan A. Albors Hernández *
Salustiano Alvarez Méndez *
Luis A. Ayala Pensi *
José A. Bechara Bravo *
Juan J. Bermúdez
Esteban D. Bird *
George Blasini *
Sila M. Calderón
Francisco J. Cameras
Richard L. Camón
Angel Antonio del Valle
Waldemar del Valle **
Luis E. Dubón, Jr.
Roberto W. Esteves
Héctor R. González **
Jorge A. Junquera Díez *
Franklin A. Mathias
Hugh G. McComas
Manuel Morales, Jr.
Daniel Ordina *
Francisco Pérez, Jr. **

Manuel C. Pérez Faura **

Jarime Ramón
Francisco M. Rexach, Jr.
Luis Rodríguez Delgado
José E. Rossi *
Félix J. Serrallés Nevaros
Noel Toli, Jr.
Emilio José Venegas **
Julio E. Vizzarrondo, Jr.

Samuel T. Céspedes, Secretary

* Director of Banco Popular de Puerto Rico only.

** Director of BanPonce Corporation only.

Executive Officers

Alberto M. Paraochini, Chairman of
the Board of BanPonce Corporation
and Banco Popular de Puerto Rico
Richard L. Camón, President of BanPonce
Corporation and President and Chief
Executive Officer of Banco Popular de
Puerto Rico
Jorge A. Junquera Díez, Executive Vice President

María Isabel Burckhart, Executive Vice President
David H. Chaffey, Jr., Executive Vice President
Larry Kessler, Executive Vice President
Humberto Martín, Executive Vice President
Emilio E. Piñero, Executive Vice President

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SECURITIES & EXCHANGE COMMISSION

WASHINGTON, D.C., 20459

FORM 10Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended JANUARY 31, 1992 or

[] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 9-18060

ILIO, INC.

(Exact name of registrant as specified in its charter)

NEW YORK

(State or other jurisdiction of incorporation or organization)

13-3266204

(I.R.S. Employer)

20 Enterprise Avenue, Secaucus, New Jersey
(Address of principal executive offices)

07094

(Zip Code)

Registrant's telephone number, including area code:

(201) 392-8800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES X

NO _____

As of March 13, 1992 the Issuer had 2,458,105 shares outstanding of its \$.01 par value common stock.

Exhibit Index found on Page No. 17

Page 1 of 18 pages.

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FORM 10Q - QUARTERLY REPORT
ILIO, INC.

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ILIO, INC.
Balance Sheet

ASSETS

	January 31, <u>1992</u> (Unaudited)	April 30, <u>1991</u> (Note)
Current assets:		
Cash and cash equivalents	\$ 183,006	\$ 2,246,539
Due from factor	9,411,764	7,966,314
Accounts receivable, net - trade	38,472	1,387,661
Merchandise inventory	7,921,414	3,941,218
Due from supplier	628,263	481,748
Prepaid and refundable income taxes	374,547	209,437
Deferred income tax benefit	87,900	87,900
Prepaid expenses and other current assets	<u>456,767</u>	<u>308,180</u>
Total current assets	19,102,133	16,628,997
Property and equipment - at cost:		
Machinery and equipment	209,982	160,932
Furniture and equipment	181,358	119,217
Leasehold improvements	<u>148,193</u>	<u>127,368</u>
	539,533	407,517
Less: Accumulated depreciation and amortization	<u>166,395</u>	<u>99,266</u>
Net property and equipment	373,138	308,251
Other assets:		
Deferred public offering costs	392,868	-
Security deposits	<u>24,610</u>	<u>25,410</u>
	<u>417,478</u>	<u>25,410</u>
	<u>\$19,892,749</u>	<u>\$16,962,658</u>

Note: The balance sheet at April 30, 1991 has been derived from the audited financial statements at that date.

See accompanying notes.

ILIO, INC.
Balance Sheet

LIABILITIES AND STOCKHOLDERS' EQUITY

	January 31, <u>1992</u> (Unaudited)	April 30, <u>1991</u> (Note)
Current liabilities:		
Loan payable	\$10,288,905	\$ 2,000,000
Acceptances and drafts payable	1,547,885	8,236,997
Accounts payable	639,794	104,003
Accrued expenses and other current liabilities:		
Salaries and wages	181,821	25,699
Profit-sharing plan contribution	-	100,000
Operating expenses	<u>431,692</u>	<u>266,139</u>
Total current liabilities	13,090,097	10,732,838
Long-term debt	850,000	-
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value:		
Authorized - 10,000,000 shares		
Issued and outstanding -		
2,429,997 shares	24,300	24,300
Additional paid-in capital	3,372,458	3,372,458
Retained earnings	<u>2,555,894</u>	<u>2,833,062</u>
Total stockholders' equity	<u>5,952,652</u>	<u>6,229,820</u>
	<u>\$19,892,749</u>	<u>\$16,962,658</u>

Note: The balance sheet at April 30, 1991 has been derived from the audited financial statements at that date.

See accompanying notes.

ILIO, INC.
Statement of Operations
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
Net sales	\$10,751,751	\$8,349,711	\$29,916,201	\$31,104,598
Cost of sales	<u>8,098,253</u>	<u>6,371,018</u>	<u>22,536,923</u>	<u>23,522,807</u>
Gross profit	2,653,498	1,978,693	7,379,278	7,581,791
Selling, general and administrative expenses	<u>2,504,328</u>	<u>2,109,027</u>	<u>7,321,056</u>	<u>6,375,239</u>
Operating income (loss)	149,170	(130,334)	58,222	1,206,552
Interest expense - net	<u>129,465</u>	<u>175,328</u>	<u>471,390</u>	<u>602,247</u>
Income (loss) before provision for (benefit from) income taxes	19,705	(305,662)	(413,168)	604,305
Provision for (benefit from) income taxes	<u>7,000</u>	<u>(126,900)</u>	<u>(136,000)</u>	<u>239,700</u>
Net income (loss)	<u>\$ 12,705</u>	<u>\$ (178,762)</u>	<u>\$ (277,168)</u>	<u>\$ 364,605</u>
Net income (loss) per common and common equivalent share:				
Primary	<u>\$.01</u>	<u>\$ (.07)</u>	<u>\$ (.11)</u>	<u>\$.14</u>
Fully diluted	<u>\$.01</u>	<u>\$ (.07)</u>	<u>\$ (.11)</u>	<u>\$.14</u>
Weighted average number of common and common equivalent shares outstanding:				
Primary	<u>2,433,142</u>	<u>2,429,997</u>	<u>2,431,415</u>	<u>2,589,191</u>
Fully diluted	<u>2,452,563</u>	<u>2,429,997</u>	<u>2,436,959</u>	<u>2,589,191</u>

See accompanying notes.

ILIO, INC.
Statement of Cash Flows
For the Nine Months Ended January 31, 1992 and 1991
(Unaudited)

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Net income (loss)	\$ (277,168)	\$ 364,605
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	69,704	41,533
Deferred income taxes	-	(24,200)
Loss on abandonment of leasehold improvements	-	44,571
Deferred rent	31,778	53,845
Changes in assets and liabilities:		
Increase in inventory	(3,980,196)	(1,376,865)
(Increase) decrease in due from factor	(1,445,450)	3,140,562
Decrease (increase) in accounts receivable	1,349,189	(90,984)
Increase in due from supplier	(146,515)	(806,504)
Increase in refundable and prepaid income taxes	(165,110)	(171,657)
Increase in prepaid expenses and other current assets	(148,587)	(90,375)
Decrease (increase) in other assets	800	(5,327)
Increase in accounts payable	535,791	143,286
Decrease in income taxes payable	-	(620,333)
Increase (decrease) in accrued expenses and other current liabilities	<u>189,897</u>	<u>(193,532)</u>
Net cash provided by (used in) operating activities	(3,985,867)	408,625
Cash flows from investing activities:		
Additions to property and equipment and net cash used in investing activities	(132,016)	(213,274)
Cash flows from financing activities:		
Borrowings (repayments) under line of credit, net	2,449,793	(814,350)
Deferred public offering costs	(395,443)	-
Proceeds from sale of common stock	<u>-</u>	<u>15,000</u>
Net cash provided by (used in) financing activities	<u>2,054,350</u>	<u>(799,350)</u>
Net decrease in cash and cash equivalents	(2,063,533)	(603,999)
Cash and cash equivalents, beginning of year	<u>2,246,539</u>	<u>2,041,511</u>
Cash and cash equivalents, end of period	\$ <u>183,006</u>	\$ <u>1,437,512</u>

See accompanying notes.

ILIO, INC.
Statement of Cash Flows (Concluded)
For the Nine Months Ended January 31, 1992 and 1991
(Unaudited)

Supplemental Disclosures of Cash Flow Information

	<u>1992</u>	<u>1991</u>
Cash paid during the period for:		
Interest	\$384,666	\$ 652,774
Income taxes	\$ 25,178	\$1,055,890

See accompanying notes.

ILIO, INC.
Notes to Financial Statements
(Unaudited)

Note 1 - Interim Financial Statements

The interim financial statements included in this report are unaudited, but in the opinion of the Registrant, include all adjustments, consisting only of normal recurring adjustments, necessary to a fair presentation of the financial position of the Registrant as at January 31, 1992, the results of operations for the three and nine months ended January 31, 1992 and 1991 and cash flows for the nine months ended January 31, 1992 and 1991. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 30, 1991.

Note 2 - Net Income (Loss) Per Common and Common Equivalent Share

Net income (loss) per common and common equivalent share has been computed based on the weighted average number of shares and dilutive common stock equivalents outstanding during each respective period.

Note 3 - Due from Factor

In October 1991, the Company entered into an agreement with a new commercial bank and factor to replace its previously existing credit facility. The new agreement provides for accounts to be factored without recourse at a service charge of approximately .70%. Interest is charged at 1% above the banks' prime lending rate on loans made by the factor prior to the average due date of the eligible receivables sold.

Prior to October 31, 1991, the Company's factoring agreement was on a collection (non-borrowing) basis, providing for accounts to be factored without recourse at a service charge of approximately .75%.

At January 31, 1992 and 1991, there were no significant amounts of factored receivables subject to recourse. Allowances for factor chargebacks and other uncollectible receivables amounted to approximately \$325,000 and \$500,000 at January 31, 1992 and 1991, respectively. Accounts receivable and factor balances are pledged as collateral under the credit facility (Note 4) at January 31, 1992 and 1991.

ILIO, INC.
Notes to Financial Statements
(Unaudited)

Note 4 - Loan Payable

In October 1991, the Company entered into an agreement with a new commercial bank and factor to replace a previously existing credit facility. The new agreement, as amended in December 1991, provides for a credit facility of \$16,000,000 for working capital and import financing (\$13,000,000 sub-limit). Import financing sub-limits are \$8,000,000 for letters of credit, \$4,000,000 for bankers acceptances and \$1,000,000 for steamship guarantees.

The agreement provides for interest on working capital loans at 1% above the bank's prime rate. Interest on bankers acceptances is computed at 2% above the banker's buying discount rate. Additionally, the Company must maintain \$100,000 in compensating balances and maintain a minimum net worth, inclusive of subordinated debt, and working capital through February 27, 1992 of \$5,800,000 and \$5,400,000, respectively. After February 27, 1992, the minimum net worth, inclusive of subordinated debt, and working capital balance requirements increase to \$5,900,000 and \$5,600,000, respectively.

The Company's accounts receivable, factor balances, inventory, property and equipment, and general intangibles have been pledged as collateral under the agreement. The borrowings under the agreement are personally guaranteed by the executive officers of the Company. The credit facility is to be reviewed in August 1992.

The Company's prior financing agreement with a commercial bank provided for a \$14,000,000 credit line. Interest on bankers acceptances was computed at 2% above the bankers acceptance rate. Interest on working capital advances was at 1% above the bank's prime rate through April 10, 1991 and 2% over prime thereafter.

At January 31, 1992, the Company's indebtedness under the credit facility for revolving working capital loans and bankers acceptances and drafts was \$11,138,905 and \$1,547,885, respectively. Additionally, the Company was contingently liable on approximately \$3,262,431 of unused letters of credit.

In connection with the Company's public offering of Convertible Senior Subordinated Debentures (Note 7), in February 1992, the Company used \$850,000 of the proceeds to reduce the Company's existing bank borrowings and, accordingly, that refinanced amount has been classified as a long-term liability.

ILIO, INC.
Notes to Financial Statements
(Unaudited)

Note 5 - Employment Agreements

The Company's employment agreements with its four executive officers provide for aggregate cash compensation of \$900,000 for each of the twelve months ending July 31, 1991 and 1992.

Note 6 - Stock Options and Warrants

Stock Option Plan

On October 3, 1991, the shareholders approved a stock option plan under which 150,000 shares of common stock can be issued through non-qualified stock options. The non-qualified stock options may be granted to any employee at an option price not less than the fair market value of the Company's common stock on the date of grant. The options expire in ten years from the date of grant and become exercisable upon the date of the grant. At January 31, 1992, no options have been granted under the plan.

On October 3, 1991, the shareholders also approved an amendment to the Company's incentive stock option plan to increase the number of authorized shares from 133,333 to 300,000. The option price is to be not less than the fair market value of the Company's common stock on the date of grant and the term of options granted is not to exceed ten years. As to any shareholder who owns 10% or more of the Company's common stock, the option price per share is to be not less than 110% of the fair market value of the Company's common stock on the date of grant and the term of the options granted is not to exceed five years. All options become exercisable no earlier than one year from the date of grant.

In May 1991, a director's option for 1,500 shares at \$10.63 per share was cancelled and a new option issued at \$3.38 per share, and an employee option for 5,000 shares was granted at \$3.50 per share.

In July and August 1991, options for 10,000 shares and 15,000 shares were granted to employees at \$2.87 per share and \$4.38 per share, respectively.

In December 1991, options for 8,000 shares at \$3.50 to \$4.25 per share were cancelled.

ILIO, INC.
Notes to Financial Statements
(Unaudited)

Note 6 - Stock Options and Warrants (Continued)

Stock Option Plan (Continued)

At January 31, 1992, options to acquire 117,500 shares at prices ranging from \$2.87 to \$10.63 were outstanding of which options to acquire 91,000 shares at \$4.25 to \$10.63 were exercisable.

Warrants and Other Options

In November 1989, the Company sold 345,000 units at \$10.00 per unit in a public offering. Adjusted for a four for three stock split in March 1990, each unit consisted of two and two-thirds shares of common stock and one redeemable common stock purchase warrant entitling the holder to purchase one and one-third shares of common at \$4.50 per share until October 30, 1992. In connection with the sale, the Company issued the underwriter an option to purchase 30,000 units at \$12 per unit until November 1994.

The number of shares of common stock underlying the warrants and the underwriter's option as at January 31, 1992 and 1991 amounted to 456,667 shares and 120,000 shares, respectively.

The Company may call the warrants issued in the public offering for redemption, in whole or in part, at a price of \$.01 per warrant, at any time prior to their expiration, if the average of the closing bid and asked prices of the common stock as quoted by NASDAQ exceeds \$9.00 per share for a period of twenty (20) consecutive business days during a period ending within 10 days prior to a declaration of redemption. The average price of the Company's common stock was not in excess of \$9.00 per share during the applicable period preceding January 31, 1992.

Note 7 - Convertible Senior Subordinated Debentures

The Company's registration statement on Form S-1 filed with the Securities and Exchange Commission, for the public offering of \$5,500,000 of Convertible Senior Subordinated Debentures ("Debentures") at par value became effective January 24, 1992. The Debentures bear interest at the rate of 11% per annum, payable monthly, and will mature on January 1, 2002. The Debentures are convertible into the Company's common stock at \$4.625 per share until July 22, 1992. Thereafter, holders may convert the Debentures

ILIO, INC.
Notes to Financial Statements
(Unaudited)

Note 7 - Convertible Senior Subordinated Debentures (Continued)

at a conversion price of the higher of (a) \$5.781 and (b) 110% of the average of the closing bid prices of the common stock on the twenty trading days prior to July 22, 1992. The Company has reserved 1,621,622 shares of its common stock for issuance upon conversion.

The Debentures are redeemable at the option of the Company prior to January 24, 1994, if the closing bid price of the common stock is greater than or equal to 150% of the conversion price then in effect, at 110% of principal amount. The Company may also redeem the Debentures at any time after January 24, 1994, at a price of 105% of the principal amount, such premium decreasing 1% each year thereafter until 100% of the principal amount. On December 1 in each of the eighth and ninth years after issuance, the Company is to deposit into a sinking fund an amount equal to 30% of the principal amount of Debentures outstanding as of October 1 in each such year, plus any interest accrued, to redeem Debentures.

In accordance with the terms of the Indenture Agreement, the Company will be restricted, under certain circumstances, from declaring or paying cash dividends. The Debentures are subordinated to existing and future bank debt.

The Debentures are offered by an underwriter on a best efforts basis through January 24, 1993. In connection with the offering, the Company issued the underwriter an option to sell on the same terms and conditions, up to an additional \$2,000,000 principal amount of Debentures. At January 31, 1992, \$392,868 of costs incurred in connection with the offering were deferred. The Company has granted warrant rights to a finder for five years to acquire up to 10,000 shares of common stock of the Company for each \$1,000,000 of Debentures sold at a price of \$7.63 per warrant.

In February 1992, the Company received net proceeds of \$1,395,940 (after offering costs of \$273,560, including related underwriters' discounts and certain legal fees) on the sale. The proceeds were used to reduce \$850,000 of the Company's bank borrowings and the balance for operating expenses (Note 4).

ILIO, INC.
 Computation of Net Income (Loss) Per Common and
 Common Equivalent Share
 For the Nine and Three Months Ended January 31, 1992 and 1991
 (Unaudited)

	Nine Months Ended January 31,		Three Months Ended January 31,	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
Primary:				
Average common shares outstanding	2,429,997	2,429,257	2,429,997	2,429,997
Net effect of dilutive common stock equivalents based on the treasury stock method using average market price				
Totals	<u>1,418</u> <u>2,431,415</u>	<u>159,934</u> <u>2,589,191</u>	<u>3,145</u> <u>2,433,142</u>	<u>-</u> <u>2,429,997</u>
Net income (loss)	\$ <u>(277,168)</u>	\$ <u>364,605</u>	\$ <u>12,705</u>	\$ <u>(178,762)</u>
Primary earnings (loss) per share	\$ <u>(.11)</u>	\$ <u>.14</u>	\$ <u>.01</u>	\$ <u>(.07)</u>
Fully diluted:				
Average common shares outstanding	2,429,997	2,429,257	2,429,997	2,429,997
Net effect of dilutive common stock equivalents based on the primary stock method using ending market price if greater than average market price				
Totals	<u>8,962</u> <u>2,438,959</u>	<u>159,934</u> <u>2,589,191</u>	<u>22,566</u> <u>2,452,563</u>	<u>-</u> <u>2,429,997</u>
Net income (loss)	\$ <u>(277,168)</u>	\$ <u>364,605</u>	\$ <u>12,705</u>	\$ <u>(178,762)</u>
Fully diluted earnings (loss) per share	\$ <u>(.11)</u>	\$ <u>.14</u>	\$ <u>.01</u>	\$ <u>(.07)</u>

* Common stock equivalents have been omitted as their effect would be to decrease the loss per share.

Item II. Management's Discussion and Analysis of Financial Condition and Results of Operations

(1) Material Change in Results of Operations

The Company had an increase in net sales and net income for the three months ended January 31, 1992. Net sales for the recent three month period were \$10,751,751, an increase of \$2,402,040 (29%) from \$8,349,711 for the three months ended January 31, 1991. During the three months ended January 31, 1992, the Company had net income of \$12,705, as compared to a net loss of \$178,762 during the three months ended January 31, 1991. The Company sustained a decrease in net sales and a net loss during the nine months ended January 31, 1992, as compared to the corresponding nine month period a year earlier. Net sales for the nine months ended January 31, 1992 were \$32,460,654, a decrease of \$2,462,361 (7%) from \$34,923,015 for the nine months ended January 31, 1991. The net loss was \$277,168, as compared to net income of \$364,605 for the nine month periods ended January 31, 1992 and January 31, 1991, respectively.

The recent increase in net sales and net income is attributable to at least two factors. First, the Company established and commenced operations of the three new divisions, bottoms, knit tops and sweaters, and an NBA division. Net sales for the new divisions for the three months ended January 31, 1992 were approximately \$3,506,000. The Company estimates that the new divisions had a small profit for the three months ended January 31, 1992. The Company does not expect to experience future rates of growth in its principal product line (woven shirts) to equal or exceed the rapid growth the Company previously enjoyed. Accordingly, the Company has diversified its lines of products through its new divisions. With respect to the second factor, the Company was able to obtain a higher gross profit percentage on its products as compared to the comparable prior year quarter. The higher margins reflect better economic conditions in the third quarter as compared to the comparable prior year. In the quarter ended January 31, 1991, the Company sold certain of its inventories at lower profit margins and increased its price allowances to certain customers.

The decrease in net sales for the nine months ended January 31, 1992, as compared to the comparable period in the prior year reflects decreased sales to two of the Company's major retail customers. Net sales to JC Penney and Sears declined by an aggregate of \$3,450,000 during the nine month period ended January 31, 1992, as compared to the nine month period ended January 31, 1991. The Company anticipates that future net sales to JC Penney and Sears will constitute a smaller percentage of the Company's net

Item II. Management's Discussion and Analysis of Financial Condition
and Results of Operations (Continued)

(1) Material Change in Results of Operations (Continued)

sales than they did in the prior years. The Company believes increased net sales of the new divisions will supplement the decrease in net sales to these customers. The new divisions had net sales of approximately \$4,252,000 for the nine months ended January 31, 1992. The net loss for the nine months ended January 31, 1992, as compared to net income for the nine months ended January 31, 1991 is primarily a result of decreased net sales to the two customers mentioned and higher operating expenses. The increased operating expenses reflect the initial costs incurred in connection with the new divisions, including salaries paid to newly hired sales and production personnel, advertising, production of samples and accrued royalties primarily in the first six months of the fiscal year.

Selling, general and administrative expenses were \$2,504,328 for the three months ended January 31, 1992 as compared to \$2,109,027 for the three months ended January 31, 1991. Selling, general and administrative expenses increased to \$7,321,056 for the nine months ended January 31, 1992 as compared to \$6,375,239 for the nine months ended January 31, 1991. The percentage of selling, general and administrative expenses to net sales were 23.3% and 24.5% for the three and nine months ended January 31, 1992 as compared to 25.3% and 20.5% for the nine and three months ended January 31, 1991. Approximately \$478,000 and \$1,117,000 of selling, general and administrative expenses for the three and nine months ended January 31, 1992, respectively, directly relate to costs charged to operations in connection with the new divisional operations.

The Company's gross profit percentages for the three and nine months ended January 31, 1992 were 24.7% and 24.7% as compared to 24.4% and 23.7% for the three and nine months ended January 31, 1991, respectively. Management attributed the lower gross profit percentage for the three months ended January 31, 1991 to selling a larger quantity of selected inventory items at lower margins during this period than is customary and an increase in price allowances to certain customers.

Interest expense as a percentage of net sales decreased to 1.6% from 1.9% for the nine months ended January 31, 1992 and 1991, respectively. The percentage decrease is attributed to a lower interest rate charged to the Company during the 1992 period.

Item II. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

(2) Material Changes in Financial Condition

The Company's registration statement on Form S-1 filed with the Securities and Exchange Commission, for the public offering of \$5,500,000 of Convertible Senior Subordinated Debentures ("Debentures") at par value became effective January 24, 1992. In connection with the offering, the Company issued the underwriters an option to sell up to an additional \$2,000,000 principal amount of debentures. At January 31, 1992, \$392,868 of costs incurred in connection with the offering was deferred. In February 1992, the Company received net proceeds of \$1,395,940 on the sale. See Note 7 to the financial statements for a further description of terms.

The Company anticipates that approximately \$1,400,000 of proceeds from the offering will be applied to finance future operations of the Company's recently formed divisions. The balance of the proceeds is anticipated to be used for working capital and, or, to reduce the amount outstanding under the Company's line of credit.

On January 31, 1992, the Company had working capital of \$6,012,036, compared to \$5,896,159 at April 30, 1991. The increase is primarily a result of the refinancing of \$850,000 of bank borrowings from the debenture offering, offset by the net loss for the nine months ended January 31, 1992.

At January 31, 1992, the Company's ratio of current assets to current liabilities decreased to 1.46 as compared to 1.55 at April 30, 1991.

The Company expects that its anticipated liquidity and capital requirements will be satisfied through the application of net proceeds from the offering and through working capital loans and import financing from its credit facility.

PART II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

NONE

Item 2. CHANGES IN SECURITIES

NONE

Item 3. DEFAULTS UPON SENIOR SECURITIES

NONE

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

Item 5. OTHER INFORMATION

On January 24, 1992 the Company's Registration Statement for its offering of \$5,500,000 Convertible Senior Subordinated Debentures (subject to increase to up to \$7,500,000) became effective. The Debentures are due January 1, 2002 and bear interest at 11 1/2 per annum payable monthly. The terms of the Debenture are subject to the Indenture agreement with National City Bank as Trustee dated January 24, 1992. As of March 13, 1992 \$2,471,700 of Debentures have been issued of which \$130,000 have been converted to 28,108 shares of common stock.

Item 6. EXHIBITS AND REPORTS ON FORM S-K

NONE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: March 13, 1992

ILIO, INC.

By: _____

JERRY ROSS, President
Treasurer, Chief Executive
and Chief Financial Officer

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SECURITIES & EXCHANGE COMMISSION
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FORM 8

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT TO APPLICATION OR REPORT
Filed Pursuant to Section 12, 13 or 15(d) of the
SECURITIES EXCHANGE ACT OF 1934

F
92-2243

ISIS PHARMACEUTICALS, INC.
(Exact name of registrant as specified in charter)

AMENDMENT NO. 1

The undersigned registrant hereby amends the following items, financial statements, exhibits or other portions of its Quarterly Report For The Quarter Ended March 31, 1992 on Form 10-Q as set forth in the pages attached hereto: (List all such items, financial statements, exhibits or other portions amended)

Part II: Item 6(a) Exhibits

- 10.3 License and Development Agreement between the Registrant and Vical Incorporated dated as of February 21, 1992 (with certain confidential information deleted)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized, as of July 1, 1992.

ISIS PHARMACEUTICALS, INC.
(Registrant)

By: [Signature] 138

Stanley T. Crooke, M.D., Ph.D.
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

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ISIS PHARMACEUTICALS, INC.
FORM 8

INDEX TO EXHIBITS

Exhibit Number	Description	Page Number
10.3	Pages 3 and 4 of License and Development Agreement between the Registrant and Vical Incorporated dated as of February 21, 1992 (with certain confidential information deleted).	4

EXHIBIT 10.3

(b) VICAL will, at its expense, use commercially reasonable efforts (taking into account the value of the Vical Patents to ISIS as well as to VICAL) to prosecute, maintain, defend and enforce the Vical Patent Applications and the Vical Patents. ISIS and VICAL shall meet as necessary to determine the scope and timing for the filing of patent applications for Vical Lipid Technology as well as the strategy for prosecuting, maintaining, defending and enforcing Vical Patents; and VICAL, based upon these discussions and in consideration of commercially reasonable principles of intellectual property protection, shall file, prosecute, maintain and defend any and all patent applications, both foreign and domestic, for Vical Patents.

(c) If VICAL decides, for any reason, not to file, prosecute, defend, maintain or enforce any Vical Patent pursuant to this Section 3.3, it will promptly notify ISIS, and ISIS may file, prosecute, defend, maintain or enforce any such Vical Patent and any costs or expenses associated with prosecuting, defending, maintaining or enforcing such Vical Patent may only be deducted from any amounts owing to VICAL hereunder. Notwithstanding the foregoing, if VICAL fails to prosecute, maintain or enforce any Vical Patent which is not a Vical Patent Application or a filing with respect thereto in the EEC, Japan or Australia, or any Vical Patent relating thereto, ISIS costs or expenses may only be deducted from royalties relating to Net Sales Revenues in the countries to which such failure relates. A failure by VICAL to file, prosecute, defend, maintain or enforce any Vical Patent pursuant to this Section 3.3 shall not be deemed a breach of this Agreement.

ARTICLE 4

PAYMENT OBLIGATIONS

4.1 License Fees.

In consideration of the licenses granted herein, ISIS will pay VICAL the following amounts:

- (a) Contemporaneous with the execution of this Agreement, ISIS will pay to VICAL \$500,000.
- (b) On the later of:
 - (i) the date six months after the Effective Date or
 - (ii) eight weeks after delivery of the Initial Vical Deliverables as described on Exhibit B, \$250,000.
- (c) On the later of:
 - (i) the date 12 months after the Effective Date or

CONFIDENTIAL TREATMENT REQUESTED

- (iii) eight weeks after delivery of the Final Vical Deliverables as described on Exhibit B, \$250,000.

Failure by ISIS to make any payment due pursuant to this Section 4.1 within 15 days after receipt of written notice, or such longer period of time during which any good faith dispute regarding such payment exists, will result in a termination of the license granted to ISIS hereunder, no amounts paid by ISIS to VICAL prior to such termination shall be refundable, and the parties shall have no future or additional obligations to each other except as to certain provisions which are stated herein to survive a termination of this Agreement.

4.2 Milestone Payments - First [] Licensed Products. ISIS shall provide VICAL written notice within 15 days of its becoming aware of the achievement of each of the milestone events set forth below in respect of each of the first [] Licensed Products developed by ISIS or its Affiliate or Sublicensee hereunder. Within 30 days after delivering each such notice, ISIS will pay to VICAL the amounts set forth below:

- (a) [] [] []
- (b) [] [] []
- (c) [] [] []
- (d) [] [] []

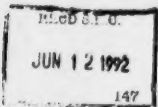
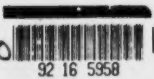
ISIS shall be entitled to credit [] of the license fee paid pursuant to Section 4.1 hereof against the first payment due pursuant to this Section 4.2. In no event shall ISIS be obligated to pay to VICAL more than an aggregate of [] under this Section 4.2.

4.3 Milestone Payments - Subsequent Licensed Products. ISIS shall provide VICAL written notice within 15 days of becoming aware of the NDA filing for the initial indication for the [] and each subsequent Licensed Product developed by ISIS or its Affiliate or Sublicensee hereunder. Within 30 days after delivery of each such notice, ISIS shall pay to VICAL []

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarter ended May 31, 1992
Commission File number 0-15969

THE KEITH GROUP OF COMPANIES, INC.
(Exact name of registrant as specified in charter)

DELAWARE
(State of incorporation)

59-2712606
(I.R.S. Employer
Identification No.)

426 Northeast 5th Street, Hallandale, Florida 33009
(Address of principal executive office) (Zip Code)

Registrants telephone number,
including area code: (305) 458-5282

Securities registered pursuant to Section 12(g) of the
Act:

Common Stock, \$.02 Par Value
(Title of Class)

Indicate by check mark whether the registrant (1) has
filed all reports required to be filed by Section 13 or
15(d) of the Securities Exchange Act of 1934 during the
preceding 12 months, and (2) has been subject to such
filing requirements for the past 90 days. Yes X No

As of June 11, 1992 there were 3,327,005 shares of
Common Stock, \$.02 par value, issued and outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements and Notes to Consolidated Financial Statements

The Following Consolidated Financial Statements of the Company and its subsidiaries and related Notes are included herein:

Consolidated Balance Sheets as of May 31, 1992 and August 31, 1991.

Consolidated Statement of Operations for the three months and nine months ended May 31, 1992 and May 31, 1991.

Consolidated Statement of Cash Flows for the nine months ended May 31, 1992 and May 31, 1991.

Notes to Consolidated Financial Statements.

THE KEITH GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

UNAUDITED

	May 31, 1992	August 31, 1991
ASSETS		
Cash	\$ 19,848	\$ 1,018,539
Investments	290,947	358,447
Accounts Receivable	327,104	42,948
Mortgages Receivable-net of allowance	4,743,120	3,312,500
Manufactured Home Inventory	159,211	152,369
Property and Equipment - net	30,366,881	30,046,390
Prepaid and Other Assets	312,390	368,491
TOTAL ASSETS	\$ 36,219,501	\$ 35,299,684
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Mortgages and Notes Payable	\$ 25,580,468	\$ 26,671,611
Accounts Payable, Accrued Expenses and Other Liabilities	2,084,390	1,634,404
Accrued Interest	2,660,766	1,656,239
Due to Related Parties	355,466	6,535
Deferred Gain on Land Sale	- 0 -	1,831,677
Total Liabilities	\$ 30,681,090	\$ 31,800,466
STOCKHOLDERS' EQUITY		
Common Stock, \$.02 par value, 5,000,000 shares authorized, 3,342,005 and 3,342,005 shares outstanding at May 31, 1992 and August 31, 1991	\$ 66,840	\$ 63,140
Additional Paid-In Capital	4,507,335	4,371,283
Retained Earnings (Accumulated Deficit)	1,345,862	(553,579)
Treasury Stock, at cost, 83,726 and 83,726 shares at May 31, 1992 and August 31, 1991	\$ (381,626)	\$ (381,626)
Total Stockholders' Equity	\$ 5,538,411	\$ 3,499,218
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 36,219,501	\$ 35,299,684

See notes to Consolidated Financial Statements

THE KEITH GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MAY 31, 1992 AND 1991

UNAUDITED

	<u>1992</u>	<u>1991</u>
Revenues:		
Rental Income	\$ 306,890	\$ 262,633
Home Sales	120,309	219,275
Other Income	212,227	218,917
Gain on Sale of Homsites and Commercial Property	527,002	- 0 -
	<u>\$ 1,166,428</u>	<u>\$ 700,825</u>
Expenses:		
Cost of Home Sales	88,945	118,970
General and Administrative	105,700	470,229
Real Estate Taxes	28,513	32,314
Interest	215,139	288,953
Depreciation and Amortization	63,116	81,830
	<u>\$ 501,413</u>	<u>\$ 992,296</u>
Income (loss) before income taxes and extraordinary item	<u>\$ 665,015</u>	<u>\$ (291,471)</u>
Income tax expense	<u>\$ 226,105</u>	<u>\$ - 0 -</u>
Income (loss) before extraordinary item	\$ 438,910	\$ (291,471)
Extraordinary item-Reduction of income taxes arising for carry forward of prior years' operating losses	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Net Income (loss)	<u>\$ 438,910</u>	<u>\$ (291,471)</u>
Net Income per share	\$.13	\$ (.10)
Common shares used in the calculations of earnings per share	<u>3,144,941</u>	<u>2,998,671</u>

See notes to Consolidated Financial Statements

THE KEITH GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED MAY 31, 1992 AND 1991

UNAUDITED

	<u>1992</u>	<u>1991</u>
Revenues:		
Rental Income	\$ 834,223	\$ 878,192
Home Sales	939,414	1,460,392
Management Fees	- 0 -	865,432
Other Income	702,073	727,390
Gain on Sale of Homesites and Commercial Property	3,139,938	- 0 -
Gain on Sale of Communities	- 0 -	264,692
	<u>\$ 5,615,648</u>	<u>\$ 4,196,098</u>
Expenses:		
Cost of Home Sales	634,895	1,008,671
General and Administrative	1,072,342	1,717,353
Real Estate Taxes	77,363	74,865
Interest	636,491	874,423
Depreciation and Amortization	316,616	235,392
	<u>\$ 2,737,707</u>	<u>\$ 3,910,704</u>
Income before income taxes and extraordinary item	<u>\$ 2,877,941</u>	<u>\$ 285,394</u>
Income tax expense	<u>\$ 978,500</u>	<u>\$ 97,034</u>
Income before extraordinary item	\$ 1,899,441	\$ 188,360
Extraordinary item-Reduction of income taxes arising for carry forward of prior years' operating losses	<u>\$ - 0 -</u>	<u>\$ 97,034</u>
Net Income	<u>\$ 1,899,441</u>	<u>\$ 285,394</u>
Net Income per share	\$.60	\$.10
Common shares used in the calculations of earnings per share	<u>3,144,941</u>	<u>2,998,671</u>

See notes to Consolidated Financial Statements

THE KEITH GROUP OF COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MAY 31, 1992 AND 1991

	<u>UNAUDITED</u>	<u>1992</u>	<u>1991</u>
OPERATING ACTIVITIES:			
Net Income		\$ 1,899,441	\$ 285,394
Adjustment for non-cash operating items:			
Deprecitation and Amortization		316,616	235,392
Issuance of common stock for services rendered		139,752	- 0 -
Gain on sale of Homesites & Comm. Prop.		(3,139,938)	- 0 -
Gain on sale of Communities		- 0 -	(264,692)
Decrease (increase) in accounts receivable		(284,156)	(260,717)
Decrease in Investments		67,500	- 0 -
Increase in Accrued Interest		1,004,527	- 0 -
Increase in Mortgages Receivable		(1,430,620)	(1,760,000)
Decrease (increase) in due to related parties		348,931	(288,264)
Decrease (increase) in inventories		(6,842)	322,974
Decrease (increase) in prepaid and other assets		56,101	(29,104)
(Decrease) increase in accounts payable		449,986	(1,454,287)
Increase in deferred gain on land sale		- 0 -	1,831,677
NET CASH (USED) BY OPERATING ACTIVITIES		\$ (578,702)	\$ (1,381,627)
INVESTING ACTIVITIES:			
Acquisition and construction of property and equipment		(1,195,246)	\$(1,753,745)
Sale of Homesites and Comm. Prop.		1,866,400	368,323
Sale of Communities		- 0 -	2,075,000
NET CASH PROVIDED BY INVESTING ACTIVITIES		\$ 671,154	\$ 689,578
FINANCING ACTIVITIES:			
Proceeds from issuance of long term debt		\$ 482,609	\$ 1,573,995
Payments on long-term debt		(1,573,752)	(2,200,279)
NET CASH (USED) BY FINANCING ACTIVITIES		\$ (1,091,143)	\$ (626,284)
NET (DECREASE) INCREASE IN CASH		\$ (998,691)	\$ (1,318,333)
Cash - beginning of period		\$ 1,018,539	\$ 2,137,915
Cash - end of period		\$ 19,848	\$ 819,582
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest (net of amounts capitalized)		\$ 64,310	\$ 489,335

See notes to Consolidated Financial Statements

THE KEITH GROUP OF COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

May 31, 1992

Note A - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The balance sheet at August 31, 1991 has been derived from the audited financial statements at that date. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and nine months ended May 31, 1992 are not necessarily indicative of the results that may be expected for the year ended August 31, 1992. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended August 31, 1991.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

Three months ended May 31, 1992 vs.
Three months ended May 31, 1991

The KEITH Group's performance during the third quarter of its current fiscal year marked the third consecutive period and ninth out of the last eleven reporting periods that a profit has been achieved. Income after taxes for the quarter was \$438,910 or \$0.13 per share, of common stock. This compares with a loss of \$291,471 or \$.10 per share for the period ended May 31, 1991. The reasons for last year's third quarter loss may be attributed to the elimination of the Company's asset management division, fewer home sales attributed to the domestic recessionary climate and higher than anticipated general and administrative expenses resulting from the Company's restaurant and banquet operations. The primary reason for the third-quarter 1992 profit may be attributed to a reduction and/or elimination of certain supervisory expenses, home inventory "floor plan" credit lines, corporate operating credit lines and the continuing trend by the Company in selling property not essential to its business operations.

Stockholders' equity increased to \$5,538,411, or \$1.71 per share, at the end of the third quarter 1992 compared to \$4,959,749, or \$1.61 per share, for the period ended February 29, 1992. Over the past twelve months stockholders' equity has increased \$2,374,887 or \$0.73 per share.

Third quarter revenues were \$1.17 million, an increase of 84% over the same period in 1991--the result of a combination of home sales, rental income derived from the flow of new residents to both Victoria Estates and Bear Creek and the Company's ability to market and sell certain property not essential to The KEITH Group's continuing operations.

Other income, primarily generated from restaurant and pro shop operations at Victoria Estates, contributed 18% to overall revenues and rental income, a derivative from new and previous home sales represented an additional 26% of gross revenues. Cost reductions in supervisory expenses and administrative support reduced third quarter expenses to \$501,413, a decrease of 49% over the same period in 1991.

Interest expense also decreased from \$288,953 for the three-month period ended May 31, 1991 to \$215,139 for the three-month period ended May 31, 1992. The Company anticipates further interest expense reductions after satisfying a \$1,000,000 promissory note during the third quarter.

General and Administrative expenses decreased 78% from \$470,229 for the three-month period ended May 31, 1991 to \$105,700 for the three-month period ended May 31, 1992. The primary reasons for this decrease may be attributed to a reduced payroll and lower costs associated with marketing the Company's communities under development during the middle months of the year, a reduction in property operating costs from the sale of certain non-essential corporate property and a more refined banquet and restaurant operation at Victoria Estates.

Real estate taxes decreased 12%, from \$32,314 for the three-month period ended May 31, 1991 to \$28,513 for the three-month period ended May 31, 1992, primarily because of the Company's past efforts in reducing its real estate holdings. Depreciation and amortization were lowered from \$81,830, for the three-month period ended May 31, 1991 to \$63,116, for the three-month period ended May 31, 1992.

Nine months ended May 31, 1992 vs.
Nine months ended May 31, 1991

The KEITH Group established a new record for earnings for the first nine months as the Company achieved an after tax profit of \$1,899,441 or \$.60 per share of common stock, compared with a profit of \$285,394 or \$.10 per share for the first nine months of 1991. Corporate revenues over the first nine months reached \$5.61 million and were comprised principally of gains on the sale of non-essential property, home sales and rental income generated from both the Victoria Estates and Bear Creek communities.

Expenses for the nine month period ended May 31, 1992 were \$1,172,997 below the first nine months of last year--a cost reduction improvement of 30%. Expenses decreased from \$3,910,704 for the nine-month period ended May 31, 1991 to \$2,737,707 for the nine-month period ended May 31, 1992, primarily as a result of reduced supervisory and marketing expenses, lower home inventory and mortgage debt attributed to the satisfaction of Company credit lines and the sale of non-essential corporate property.

Liquidity and Capital Resources

The KEITH Group's primary business activities which include the acquisition, development and operation of manufactured housing communities are capital intensive in nature. The Company expects to continue to fund its operations and capital requirements for 1992 through operating cash flows derived from the sale of non-essential property, home sales, rental income and external borrowings from revolving credit agreements established with a number of lending institutions.

On May 15, 1992, the Company through one of its wholly owned subsidiaries, H.K. Bear Creek, Inc., sold eighty-two (82) homesites on approximately 21.66 acres of undeveloped property located on the upper east coast of Florida for \$866,400. The Company intends to use the proceeds when available from this sale to reduce existing corporate debt and fund other costs at its remaining properties.

On May 10, 1992, the Company satisfied a \$1,000,000 revolving credit line with First Union National Bank of Florida. The Company believes that by continuing to eliminate corporate debt interest expense is reduced and cash flow from operations is maximized.

The KEITH Group has concentrated on the retirement age buyer from North America while remaining committed to developing upscale manufactured housing communities that offer affordable homes and a wide array of amenities. As a result, the Company has continually upgraded and maintained its communities in anticipation of the end of the recessionary environment and the return to home sale levels previously experienced at its Victoria Estates and Bear Creek communities.

Through the acquisition and development of its commercial properties, the Company's sale of non-essential resources has produced a constant stream of cash flow and income which has provided a strong buffer against the impact of the housing cycle on The KEITH Group's overall business. Under the appropriate circumstances, the Company shall continue to market and sell certain properties that have reached a certain appreciable level and use the proceeds to reinvest into either new or existing communities. The Company is also continuing to review possible acquisitions of existing manufactured home communities or properties suitable for development.

The Company believes that the above actions coupled with a return to former home sale levels at its Victoria Estates and Bear Creek communities will provide sufficient funds to meet its obligations on a timely basis.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 4.55 Agreement for Purchase and Sale dated March 6, 1992 between H.K. Bear Creek, Inc. and Maple Leaf, Ltd. for \$866,400.
- 4.56 Promissory Note, dated May 22, 1992, from Maple Leaf, Ltd. to H.K. Bear Creek, Inc. for \$693,120.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: June 11, 1992

The KEITH Group of Companies, Inc.

BY: *Rugh Keith*

RUGH KEITH, Chairman
and Chief Executive
Officer

AGREEMENT

THIS AGREEMENT is made and entered into this 6th day of March, 1992, by and between H.K. BEAR CREEK, INC., a corporation organized and existing under the laws of the State of Florida and having its principal place of business at One Big Bear Path, Ormond Beach, Florida 33980 (hereinafter referred to as "Seller"), and MAPLE LEAF, LTD., with its principal place of business at 8148 Northwest Fifteenth Manor, Plantation, FL 33322 (hereinafter referred to as "Buyer").

W I T N E S S E T H:

WHEREAS, Seller holds title to certain real property located in Volusia County, Florida, consisting of 82 home sites on approximately 21.66 acres, more or less, being situate at the northwest corner of the Bear Creek Manufactured Home Community, as is more particularly described in the site plan designated as Exhibit "A" attached hereto and made a part hereof (hereinafter the "Real Property"); and

WHEREAS, Seller desires to sell and Buyer desires to buy the Real Property under the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the premises, which shall be deemed an integral part of this Agreement and not as mere recitals hereto, and in consideration of the mutual covenants, representations, warranties, agreements and conditions herein contained, and for Ten Dollars (\$10.00) and other good and valuable consideration, the receipt hereto, intending to be legally bound thereby, agree as follows:

1. Purchase Price. The total purchase price to be paid for the Real Property is Eight hundred sixty-six thousand four hundred and No/100 Dollars (\$866,400.00), subject to all prorations, credits and adjustments, if any, as provided in this Agreement.
2. Manner of Payment of Purchase Price. The purchase price for the Real Property shall be paid by Buyer to Seller as follows:

(a) Closing.

(i) At Closing, Buyer shall pay to Seller the sum of One hundred seventy-three thousand two hundred eighty and no/100 Dollars (\$168,280.00) by cashiers check or wire transfer funds to a bank account designated by Seller;

(ii) At Closing, Buyer shall give to Seller a Promissory Note in the sum of Six hundred ninety-three thousand one hundred twenty and no/Dollars (\$693,120.00). The interest rate on the note shall be seven and one-half percent (7 1/2%) per annum simple interest. During the term of this note, interest and principal shall be payable annually based on a twenty (20) year amortization until May 21, 1997, at which time the entire principal balance plus any accrued interest shall be due and payable. The Buyer would reserve the right to prepay all or any portion of the principal balance at any time without penalty upon payment of interest to date of such partial payment.

(b) Earnest Money Deposit.

Upon the execution of this Agreement, Buyer shall deposit with the Seller the amount of Five thousand and no/100 Dollars (\$5,000.00). At the closing as set forth in the subject Agreement Buyer shall receive a credit against the purchase price and the cash payable at closing for the total amount of the Earnest Money Deposit.

3. Conveyance Documents and Possession. At Closing, Seller shall execute and deliver to Buyer executed originals of the following documents:

(a) Statutory General Warranty Deed conveying good and marketable title of the real property to Buyer subject only to the permitted exceptions specified in paragraph 5 of this Agreement;

(b) Affidavit of No Lien;

(c) Affidavit in compliance with the Foreign Investment in Real Property Tax Act of 1980, as amended, affirming that the Seller is not a "foreign person" as defined by the Internal Revenue Code;

(d) Such other documents as Buyer may reasonably require to be executed and delivered to complete the transaction contemplated hereunder.

Seller shall deliver copies of all documents to be delivered at Closing to Buyer's attorney not less than seven (7) days prior to Closing.

In the event any mortgage or lien encumbers the subject property, Seller shall provide to Buyer, prior to Closing, an estoppel certificate and/or payoff letter from such mortgagee or lien holder stating the present unpaid balance of the lien, including accrued interest to the proposed date of Closing, and the amount required to satisfy and release the lien as of the proposed date of Closing.

4. Expenses and Proration.

(a) Seller shall be responsible for paying all costs associated with transferring title such as payment of the Documentary Stamps to be affixed to the Deed and Buyer shall be responsible for all costs associated with recording the Deed and any costs associated with obtaining a survey of the property.

5. Title Insurance.

(a) A title Insurance commitment and policy covering the property in the amount of the full purchase price shall be obtained and paid for by Buyer.

(b) The title insurance commitment shall be obtained by Buyer, no later than 60 days prior to closing. There shall be no exceptions to the commitment or policy except ad valorem taxes for the year of Closing and subsequent years, unless otherwise agreed to in writing by the Buyer. Buyer or Buyer's attorney shall give written notice to the Seller of any objections by the Buyer to the title. After due notice, Seller shall have a reasonable time, not to exceed sixty (60) days, to cure any title defect, and, if necessary, the Closing shall be delayed for that period.

6. Seller's Representations and Warranties to Buyer.

Seller represents and warrants to Buyer as follows:

(a) The Seller has neither assigned nor pledged, nor will assign or pledge the Purchase Contract to any other person, and that Seller has full power and authority to execute the Agreement to Purchase Real Estate.

(b) That there are no special assessments against or relating to the Subject Property.

(c) That Seller will indemnify, protect and hold harmless Buyer against any and all claims or demands arising prior to the Closing date that may be made in, to, against or under any of the properties of any nature to be conveyed herein, or any attachment arising from, or based upon, claims or demands arising prior to the Closing date that may be made on such properties by any creditor of Seller, or any other person claiming to hold or attach the same or any interest therein.

(d) The Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida and has full power and authority to carry out the transactions contemplated by this Agreement.

(e) The execution of this Agreement and the consummation of the transactions contemplated herein have been duly and validly authorized by the stockholders and directors of the Seller at meetings duly called for that purpose. The stockholders and board of directors of the Seller have approved and authorized the execution of this Agreement and the consummation of the transactions contemplated herein.

7. Representations, Warranties and Agreements of the Buyer. The Buyer hereby represents, warrants and agrees as follows:

(a) Buyer acknowledges that the Real Property is being sold in "as is" condition, that Buyer has examined the Real Property and has satisfied itself as to the condition thereof and that Seller has made no representations or warranties of any kind, express or implied, as to the condition of the Real Property, except as to the title thereof.

8. Closing Date. The Closing of the sale shall take place at the office of H.K. Bear Creek, Inc., One Big Bear Path, Ormond Beach, Florida 32174, at 10:00 a.m., on May 22, 1992. Such date is herein referred to as the "Closing".

9. Property Inspection. Seller agrees that Buyer shall have fifteen (15) days from the above-referenced date of the Agreement to conduct or make such engineering, surface or subsurface soils and all other inspections, tests, surveys or studies, of or pertaining to the development, the construction or use of the subject property. In the event the Buyer, in Buyer's sole and exclusive determination, considers such inspection to indicate that the subject property is not suitable for development by Buyer, the Buyer may cancel and terminate

this Agreement by notifying the Seller in writing prior to the expiration of such inspection period and obtain an immediate refund of the Earnest Money Deposit. It is the intention of the parties that such Earnest Money Deposit shall be non-refundable following the completion of the inspection period.

10. Nature and Survival of Representations and Warranties. All statements contained herein or in any certificate, exhibit, schedule or other document delivered pursuant hereto shall be deemed representations and warranties by the person and/or entity delivering the same or on behalf of whom the same were delivered. All representations and warranties shall survive the Closing, and liability with respect thereto shall not be affected by any investigation made prior to the Closing.

11. Termination. Notwithstanding anything contained in this Agreement to the contrary, this Agreement shall be terminated and the transactions contemplated hereby abandoned as follows:

- (a) by the mutual agreement of Buyer and Seller;
- (b) by Seller on or before the Closing if any of the representations and warranties of Buyer set forth in paragraph 7 hereof prove to be untrue.
- (c) By Buyer at or before Closing if any of the representations and warranties of Seller set forth in paragraph 6 hereof prove to be untrue.
- (d) By Buyer on or before sixty (60) days from the date of this Agreement pursuant to the property inspection period set forth in paragraph 9 hereof.

The termination of this Agreement and other transactions contemplated hereby pursuant to subparagraphs (b) and (c) of the paragraph shall be deemed effective when notice thereof has been delivered to the party electing termination to the other party hereto.

12. Assignment. Buyer cannot assign any part or all of this Agreement to any partnership, joint venture, corporation or other entity without first receiving written consent from the Seller.

13. Brokers.

(a) Buyer represents and warrants to Seller that there has been no act or omission by Buyer which would give rise to any valid claim against Seller for a brokerage commission, finder's fee or other like payment in connection with the transactions contemplated by this Agreement.

(b) Seller represents and warrants to Buyer that there has been no act or omission by Seller which would give rise to any valid claim against Buyer for a brokerage commission, finder's fee or other like payment in connection with the transactions contemplated by this Agreement.

14. Notices. Except as otherwise provided in this Agreement, any and all notices, consents, waivers, directions, requests, approvals or other instruments or communications provided for under this Agreement shall be in writing, signed by the party giving the same and shall be deemed properly given if personally served in the party to whom the notice or other communication is directed, or if sent by registered or certified United States mail, postage prepaid, addressed to the party to whom the notice or other communication is directed at the address specified on the first page of this Agreement for such party. Any notice given by mail as provided above shall be deemed to have been received as of the third (3rd) business day after which it was mailed. Notices shall be addressed to the parties as follows:

H.K. Bear Creek, Inc.
One Big Bear Path
Ormond Beach, FL 32174

with a copy to:

Maple Leaf, Ltd.
c/o Mr. Isacc Holden
8148 Northwest Fifteenth Manor
Plantation, FL 33322

15. Waivers. No course of dealing or delay by any party hereto in exercising any right, power, or remedy hereunder shall operate as a waiver of any right, power, or remedy hereunder, except to the extent expressly manifested in writing by that party.

16. Rules of Construction.

(a) Entire Agreement. This Agreement, including any and all exhibits and schedules referenced and attached hereto, constitutes the entire agreement between the parties pertaining to the subject matters hereof, and supersedes all negotiations, preliminary agreements, and all prior and contemporaneous discussions and understanding of the parties in connections with the subject matters hereof.

(b) Except as otherwise provided herein, no covenant, representation or condition not expressed in the Agreement, or in an amendment hereto made and executed in accordance with the provisions of subparagraph (b) of this paragraph, shall be binding upon the parties hereto or shall affect or be effective to interpret, change or restrict the provisions of this Agreement.

(c) Amendments. No change, modification or termination of any of the terms, provisions, or conditions of this Agreement shall be effective unless made in writing and signed or initialed by all parties hereto.

(d) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

(e) Separability. If any section, paragraph, subparagraph or other provision of this Agreement or the application of such section, paragraph, subparagraph or provision is held invalid, the remainder of the Agreement and the application of such section, paragraph, subparagraph, provision to persons or circumstances, other than those with respect to which it is held invalid, shall not be affected thereby.

(f) Headings and Captions. The title or captions of sections, paragraphs and subparagraphs contained in this Agreement are provided for convenience of reference only, and shall not be considered a part hereof for purpose of interpreting or applying this Agreement; and, therefore, such titles or captions do not define, limit, extend, explain, or describe the scope or extent of this Agreement or any of its terms, provisions, representations, warranties, conditions, etc., in any manner or way whatsoever.

(g) Gender and Number. All pronouns and variations thereof shall be deemed to refer to the masculine, feminine or neuter and to the singular or plural as the identity of the person or entity or persons or entities may require.

(h) Binding Effect on Successors and Assigns. This Agreement shall only be assignable to any third party with the express written consent of the Seller and shall only be binding upon and shall inure to the benefit of the parties hereto.

(i) Continuance of Agreement. The rights, responsibilities, duties, representations and warranties of the parties hereto and the covenants and agreements herein contained shall survive the Closing and the execution hereof, shall continue to bind the parties hereto, and shall continue in full force and effect until each and every obligations of the parties hereto, pursuant to this Agreement and any document or agreement incorporated herein by reference, shall have been fully performed.

(j) Remedies. All remedies shall be cumulative and not alternative.

17. Time for Acceptance. This Agreement shall be accepted and executed by Buyer and delivered to Seller within three (3) business days after executed hereof by Seller. In the event this Agreement is not accepted, executed and delivered by Buyer as stated herein, the Agreement shall be considered null and void and of no legal force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and the year first above written.

WITNESSES:

H.K. BEAR CREEK, INC.

By: Hugh Keith, President

Date of Execution: 3/6/92

"SELLER"

MAPLE LEAF, LTD.

By: Isaac Holden
Isaac Holden,
General Partner

Date of Execution: 3/6/92

"BUYER"

CITY PLAN

- SECTION 170
- 
1. LOT NUMBER
2. EASEMENT
3. PROPERTY LINE
4. LOT AREA
5. LOT DIMENSIONS
6. LOT CORNER
7. LOT CENTER
8. LOT PERIMETER
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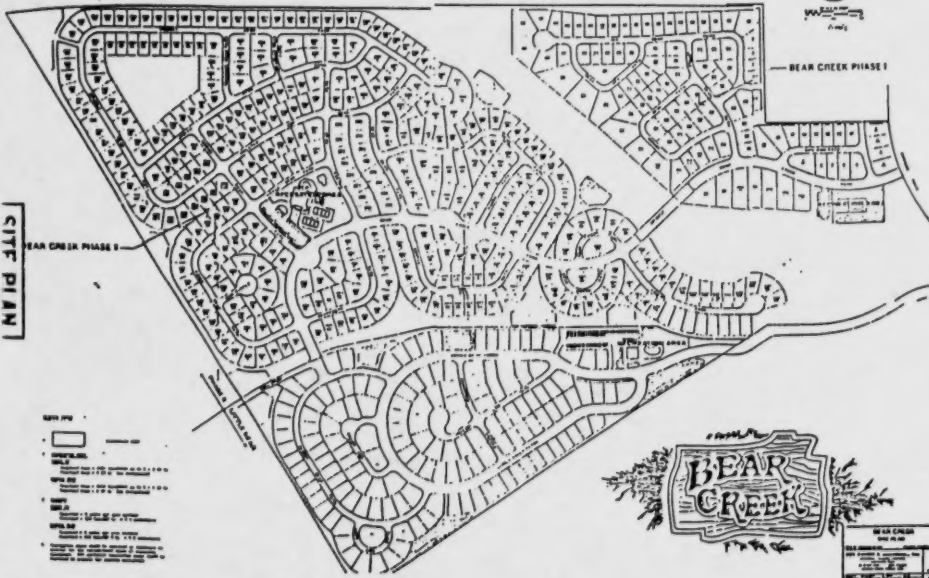


EXHIBIT "A"



BEAR CREEK	
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PROMISSORY NOTE

Exhibit 4.56

\$693,120.00

Ormond Beach, Florida

Dated: May 22, 1992

FOR VALUE RECEIVED, the undersigned, promises to pay to the order of N.K. BEAR CREEK, INC., herein referred to as Holder, the principal sum of Six hundred ninety three thousand one hundred and no/100 Dollars (\$693,120.00), with interest thereon at seven and one-half percent (7 1/2%) per annum as follows:

During the term of this Note, interest and principal shall be payable annually based on a twenty (20) year amortization until May 21, 1997, at which time the entire principal balance plus any accrued interest shall be due and payable. Both principal and interest shall be payable in lawful current money of the United States of America. Interest shall be calculated based on a 360-day year and the actual number of days elapsed for any portion of a month for which interest may be due.

1. This note may be prepaid at any time and from time to time, in whole or in part, without penalty.
2. On default, the whole sum of principal and interest shall become due immediately at the option of the Holder thereof. Default shall include, but not be limited to the failure of the maker to pay any installment of interest or principal within five (5) days written notice of same hereby become due, the filing, as to maker, of a voluntary on voluntary petition under the provisions of the Federal Bankruptcy Act, the issuance of any attachment or execution against any assets or Maker, or the death of Maker, or any deterioration of the financial condition of Maker which results in the Holder hereof deeming itself, in good faith, insecure.
3. Maker's shall pay all expenses incurred by Holder, including a reasonable attorney's fee, expended in the collection of this note or the enforcement of any provision of this note.
4. Maker's hereby waive (a) presentment, demand, protest, notice of dishonor and/or protest and notice of nonpayment; (b) the right to require Holder to proceed against any party to this note, or to pursue any other remedy in Holder's power. Holder may proceed against Maker directly and independently of each other, or of any other party for any reason other than full payment, or any revision, renewal, extension, forbearance, change or rate of interest, or acceptance, release or any impairment or suspension of Holder's remedies or rights against any other party, shall not in anywise effect the liability of Maker.
5. This note has been made and delivered in the State of Florida, County of Volusia, and this note shall be construed in accordance with the laws of the State of Florida.

Maker's Address:

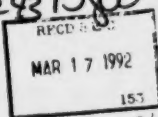
8148 Northwest Fifteenth Manor MAPLE LEAF, LTD.
Plantation, Florida 33322

By Isacc Holden g.p.
Isacc Holden, General Partner

03073
Q 36666

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



52871369

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended January 31, 1992.

OR

- () Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 0-6949

KRELLITE INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

Minnesota

(State or other jurisdiction
of incorporation or organization)

41-0415180

(I.R.S. Employer
Identification Number)

9900 Bryn Road East, Minnetonka, MN

55343

(Address of principal executive offices) (Zip Code)

(612) 936-0401

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

The number of shares outstanding of the Registrant's common stock as of March 12, 1992 was:

Common Stock - 3,473,581 shares

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Q-Data Corp. - St. Petersburg, FL

KRELITZ INDUSTRIES, INC.

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KRELITZ INDUSTRIES, INC.
FORM 10-Q
For the Nine Months Ended January 31, 1992

Part I

CONSOLIDATED BALANCE SHEETS

	January 31, 1992 (Unaudited)	April 27, 1991
Assets		
Current assets:		
Accounts receivable, less allowances for discounts and doubtful accounts (January 31, 1992, \$363,000; April 27, 1991, \$365,000)	\$14,403,317	\$15,120,917
Inventories	20,737,430	18,293,706
Note receivable, stockholders, current portion	22,104	20,628
Income taxes receivable		1,261,464
Prepaid expenses	223,374	186,368
Deferred income taxes	<u>253,700</u>	<u>253,700</u>
Total current assets	35,639,925	35,136,783
Property and equipment, at cost	8,228,120	7,234,204
Less accumulated depreciation and amortization	<u>(13,870,484)</u>	<u>(13,129,675)</u>
Property and equipment, net	4,357,636	4,104,731
Net assets held for sale	1,077,683	1,183,997
Accounts and note receivable, stockholders, less current portion	61,205	82,696
Income taxes receivable	335,196	
Other assets	<u>761,971</u>	<u>264,586</u>
Total assets	<u>\$42,233,616</u>	<u>\$40,772,793</u>
Liabilities & Stockholders' Equity		
Current liabilities:		
Accounts payable, trade, including cash overdrafts (January 31, 1992, \$2,822,931; April 27, 1991, \$1,251,056)	\$22,095,368	\$16,330,413
Current portion of long-term debt	31,612	29,185
Current portion of capital lease obligations	288,379	271,347
Accrued expenses	<u>282,642</u>	<u>528,210</u>
Total current liabilities	22,698,101	17,159,155
Long-term debt, less current portion	15,981,913	18,833,585
Capital lease obligations, less current portion	526,823	739,295
Deferred income taxes	<u>153,300</u>	<u>153,300</u>
Total liabilities	39,356,137	36,885,335
Stockholders' equity:		
Common stock, par value \$1 per share; authorized shares, 7,000,000; issued shares, 3,473,581	3,473,581	3,473,581
Retained earnings (accumulated deficit)	<u>(596,102)</u>	<u>413,877</u>
Total stockholders' equity	<u>2,877,479</u>	<u>3,887,458</u>
Total liabilities & stockholders' equity	<u>\$42,233,616</u>	<u>\$40,772,793</u>

See accompanying notes to consolidated financial statements.

KRELITZ INDUSTRIES, INC.
Part I, Continued

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Three and Nine Months Ended January 31, 1992 and 1991 (Unaudited)

	<u>For Three Months Ended</u>		<u>For Nine Months Ended</u>	
	<u>January 31, 1992</u>	<u>January 31, 1991</u>	<u>January 31, 1992</u>	<u>January 31, 1991</u>
Net sales	\$63,368,897	\$67,991,253	\$186,918,188	\$195,598,043
Cost of goods sold	<u>60,149,463</u>	<u>63,947,690</u>	<u>177,302,577</u>	<u>183,801,236</u>
Gross profit	3,219,434	4,043,563	9,615,611	11,796,809
Selling, general and administrative expenses	<u>3,421,614</u>	<u>3,268,032</u>	<u>10,295,225</u>	<u>9,395,026</u>
Operating income (loss)	(201,980)	775,531	(679,614)	2,401,783
Interest expense	479,626	623,573	1,391,974	1,501,229
Other income, net	<u>(514,481)</u>	<u>(66,656)</u>	<u>(560,784)</u>	<u>(222,466)</u>
Income (loss) from continuing operations before income taxes (benefit)	(167,125)	218,614	(1,510,804)	1,123,020
Income taxes (benefit)	<u>(56,000)</u>	<u>103,000</u>	<u>(501,000)</u>	<u>595,000</u>
Income (loss) from continuing operations	(111,125)	115,614	(1,009,804)	618,020
Gain on disposal of discontinued operations, net of taxes				<u>17,355</u>
Net income (loss)	<u>\$ (111,125)</u>	<u>\$ 115,614</u>	<u>\$ (1,009,804)</u>	<u>\$ 635,375</u>
Income (loss) per share of common stock:				
Continuing operations	\$(.03)	\$.03	\$(.29)	\$.18
Discontinued operations				
Net income (loss)	<u>\$(.03)</u>	<u>\$.03</u>	<u>\$(.29)</u>	<u>\$.18</u>

See accompanying notes to consolidated financial statements.

KRELITZ INDUSTRIES, INC.
PART I, Continued

CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash
For the Nine Months Ended January 31, 1992 and 1991 (Unaudited)

For Nine Months Ended
January 31, 1992 January 31, 1991

Cash flows from operations:		
Income (loss) from continuing operations	\$ (1,009,804)	\$ 618,020
Depreciation and amortization	780,035	405,387
Gain on sale of real estate	(499,144)	
Deferred income taxes		(20,700)
Cash provided by (used in) continuing operations	<u>(728,913)</u>	<u>1,003,207</u>
Income from discontinued operations		17,355
Depreciation and amortization		24,613
Gain on disposition of assets		<u>(138,670)</u>
Cash used in discontinued operations		<u>(96,502)</u>
Cash provided by (used in) operations	<u>(728,913)</u>	<u>906,705</u>
Change in assets and liabilities:		
Accounts receivable	717,600	(5,192,906)
Inventories	(2,443,724)	(14,718,367)
Income taxes receivable	926,268	
Prepaid expenses	(83,979)	16,545
Other assets	(97,385)	29,662
Accounts payable	4,192,980	4,582,039
Accrued expenses	<u>(243,568)</u>	<u>269,718</u>
Net cash provided by (used in) operations...	<u>2,229,279</u>	<u>(16,106,606)</u>
Cash flows used in investing activities:		
Proceeds from sale of real estate	213,405	
Proceeds from disposition of discontinued operations		300,000
Expenditures for property and equipment	<u>(993,914)</u>	<u>(1,967,240)</u>
Net cash used in investing activities	<u>(780,509)</u>	<u>(1,667,240)</u>
Cash flows from financing activities:		
Long-term debt borrowings	190,215,252	212,089,734
Long-term debt payments	(193,066,497)	(197,261,947)
Net change in cash overdrafts	1,571,875	1,010,740
Payments on capital lease obligations	(201,240)	(103,900)
Reduction in note receivable, stockholder	20,015	19,237
Payments for fractional shares	<u>(175)</u>	
Net cash provided by (used in) financing activities	<u>(1,458,770)</u>	<u>15,773,864</u>
Cash, beginning and end of period	<u>\$ -0-</u>	<u>\$ -0-</u>

See accompanying notes to consolidated financial statements.

KRELITZ INDUSTRIES, INC.
PART I, Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The consolidated financial statements included in this Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed, or omitted, pursuant to such rules and regulations, although management believes the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 1991 Annual Report on Form 10-K.

The consolidated financial statements presented herein as of January 31, 1992 and for the three and nine months then ended reflect, in the opinion of management, all material adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the consolidated financial position, consolidated results of operations and the consolidated cash flows for the interim period.

The consolidated financial statements include the accounts of Krelitz Industries, Inc. and its wholly owned subsidiary, UPC, Inc., formerly Ulmer Pharmacal Company, formerly James Phillips Company. See Note 2 regarding the Company's divestiture of certain net assets of the subsidiary; accordingly, it has been presented as discontinued operations in the accompanying financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

2. Discontinued Operations

During fiscal year 1990, the Company's Board of Directors approved a restructuring program whereby certain selected businesses, which were not meeting financial performance objectives, would be sold. As part of this program, accounts receivable, inventories and equipment related to the Company's medical and surgical supply distributor were sold in April 1990. In addition, in August 1990, the accounts receivable, inventories and equipment related to the Company's proprietary skin care products business were sold. The Company has discontinued its activities in these lines of business. These discontinued business segments are presented as "discontinued operations" in the accompanying consolidated financial statements.

KRELITZ INDUSTRIES, INC.
PART I, Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), Continued

2. Discontinued Operations, Continued

The net assets of the discontinued operations included in the accompanying consolidated balance sheets as net assets held for sale were as follows:

	<u>Dollars in Thousands</u>	
	<u>January 31, 1992</u>	<u>April 27, 1991</u>
Property and Equipment	<u>\$1.078</u>	<u>\$1.114</u>
	<u>\$1.078</u>	<u>\$1.114</u>

These assets include land and a building which the Company expects to sell for amounts in excess of their book value.

3. Inventories

Substantially all inventories are valued at the lower of cost or market, with cost determined on the last-in, first-out (LIFO) basis. If the first-in, first-out (FIFO) method had been used, inventories at January 31, 1992 and April 27, 1991 would have been higher than reported by \$7,655,000 and \$7,018,000, respectively.

4. Income Per Share Data

Income (loss) per share of common stock is computed by dividing income (loss) data by the weighted average number of common shares outstanding during the period, affected for the stock split, as discussed in Note 9 (3,473,581 for fiscal year 1992 and fiscal year 1991).

5. Long-Term Debt

The Company had available a \$24,000,000 bank line of credit at January 31, 1992, at prime plus 1.5 percent, of which \$8,247,038 was unused. The line is subject to cancellation by the bank following 375 days written notice, and is collateralized by substantially all accounts receivable, inventories, and property and equipment owned by the Company.

As of January 31, 1992, the Company was in default with respect to certain of the covenants of its line of credit agreement. Subsequently, the bank agreed to waive events of default. The most restrictive amended covenant requires the Company to maintain a minimum net worth of \$2,200,000 through May 2, 1992.

The line of credit does not have a fixed maturity date and, accordingly, is only required to be repaid if called by the bank. Under this agreement, the Company is permitted to pay stock dividends and cash dividends are permitted to the extent they do not exceed 50 percent of net income in any fiscal year, and, in any event, are not more than \$500,000 in any fiscal year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), Continued

6. Income Taxes

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. This standard will significantly change the accounting and reporting of income taxes and requires adoption by the Company no later than fiscal 1994. The Company does not plan to adopt the new standard until fiscal 1993 or 1994 and has not decided which implementation alternative (recording the cumulative effect of the new rules entirely in the year of implementation or restating prior year financial statements) it will utilize. Because of uncertainty as to the requirements of the new standard due to reconsideration by the Board and because of the choice of implementation alternatives, the effects of the new standard on the Company's financial position have not been determined in detail; however, they are not expected to be significant.

The effective tax rates are 33 percent and 45 percent for the nine month periods ended January 31, 1992 and 1991, respectively. This rate reflects both the federal statutory tax rates and alternative minimum tax in the State of Minnesota.

7. Litigation

The Company is involved in certain product liability claims arising from a product sold by Physicians and Hospitals Supply Company ("P & H"), which was acquired in 1983 by the Company's wholly-owned subsidiary, UPC, Inc. P & H and/or one of its divisions (Ulmer) have been named, along with more than 200 other drug manufacturers and distributors, as defendants in numerous personal injury cases involving the drug diethylstilbestrol ("DES"). In each of these cases, the plaintiffs seek to recover from the defendants, jointly or severally, substantial compensation and punitive damages for injuries allegedly sustained because of exposure to DES.

P & H and/or UPC, Inc. have denied all liability and are vigorously defending the actions in which they have been named. Although P & H and/or UPC, Inc. have product liability insurance, the extent of the coverage available under such insurance is uncertain at this time.

The Company is unable to determine the amount of losses, if any, that it will sustain as a result of the DES litigation. It does believe, however, in view of the small quantity of DES which it sold and the possible availability of insurance coverage that any losses incurred should not be material to its financial position.

KRELITZ INDUSTRIES, INC.
PART I, Continued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), Continued

8. Supplemental Cash Flow Information

Cash paid for interest and income taxes for both continuing and discontinued operations is as follows:

	<u>Dollars in Thousands</u>	
	<u>January 31, 1992</u>	<u>January 31, 1991</u>
Interest	\$1,392	\$1,581
Income Taxes		\$ 550

On December 31, 1991, the Company obtained a note receivable of \$400,000 for a portion of the proceeds due from the sale of real estate. (See Note 10 of Notes to Consolidated Financial Statements.)

In fiscal year 1991, the Company retroactively changed its method of reporting cash overdrafts from negative cash equivalents to a financing activity for purposes of the consolidated statements of cash flows. Accordingly, the January 31, 1991 consolidated statement of cash flows has been restated to reflect this change.

9. Common Stock:

In October 1991, the Company's Board of Directors authorized a three-for-two stock split in the form of a 50% stock dividend. The stock dividend was distributed on November 15, 1991, to shareholders of record on November 1, 1991. The restatement for this split, as of October 31, 1991, resulted in an additional 1,157,819 shares of common stock being issued. Fractional shares were paid in cash based on the closing price on the record date adjusted for the stock split. All stock and earnings per share amounts have been restated retroactively for the stock split.

10. Sale of Real Estate:

On December 31, 1991, the Company recorded a \$499,000 gain on the sale of real estate property located at 509 Washington Avenue South, Minneapolis, Minnesota. Proceeds from the sale were \$650,000 received in the form of cash and a \$400,000 note receivable. The note is due December 31, 1994 and bears interest at 10%, with the first interest payment due February 1, 1992.

KRELITZ INDUSTRIES, INC.
PART I, Continued

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Results of Operations - First Nine Months

The discussion and analysis that follows reviews the results of operations of the Company's continuing business segments, exclusive of discontinued operations. Note 2 of Notes to Consolidated Financial Statements discloses information related to discontinued operations.

Net sales during the first nine months of fiscal 1992 were \$186,918,000, a decrease of \$8,680,000, or 4.4%, from the first nine months of fiscal 1991. Sales increases from existing and new customers in the drug distribution business of approximately \$23,900,000 did not fully mitigate the previously reported loss of a significant customer.

Gross profit was \$9,616,000, or 5.1% of net sales, during the nine months ended January 31, 1992 versus 6.0% for the nine months ended January 31, 1991. Gross profit margins reflect the intense competition in the industries in which the Company operates. Growth in the hospital business, which is typically high volume, low margin business, has contributed to lowering gross profit margins. In addition, the contribution to gross profit available from purchasing in anticipation of vendor price increases was reduced during the second and third quarters. The frequency and magnitude of certain vendor price increases has lessened as compared to last year.

The high volume nature of the Company's business and the use of gross profit percentages during interim periods to estimate cost of goods sold will typically result in adjustments included in fourth quarter operating results to reflect the recording of actual inventory and related accounts based on annual physical inventories. The Company performed third quarter physical inventories and gross profit margins as reported reflect actual results based upon these reconciled inventories at January 31, 1992. The gross profit percentage for the nine months ended January 31, 1992 of 5.1% compares to a gross profit of 4.9% for fiscal year 1991.

The use of the LIFO method of inventory valuation increased the cost of goods sold during the nine months ended January 31, 1992 and 1991 by \$637,000 and \$938,000, respectively, over cost amounts determined on a FIFO basis. The LIFO method was adopted to more closely match current costs with revenues during periods of inflation. Under LIFO inventory accounting, the cost of goods sold is based on the most recent inventory costs rather than those from an earlier period. Although inflation has lessened in recent years, the Company continues to experience some product price increases.

Selling, general and administrative expenses totalled \$10,295,000 or 5.3% of net sales, for the nine months ended January 31, 1992, an increase of \$900,000 over the nine months ended January 31, 1991. These expenses included warehouse and delivery costs associated with sales growth in connection with existing and new customers and depreciation and amortization on management information services expenditures which were incurred to improve upon technology utilization.

KRELITZ INDUSTRIES, INC.
PART I, Continued

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. Continued

Results of Operations - First Nine Months, Continued

Interest expense was \$1,392,000 during the first nine months of fiscal 1992 versus \$1,501,000 for the first nine months of fiscal 1991. Interest expense is expected to remain a critical item in the future. The decrease is a result of lower interest rates and management's continued focus on asset management, which resulted in an increase in inventory turnover and improvement in accounts receivable days' sales outstanding (See Financial Position/Liquidity).

The decrease in gross profit margins combined with increased operating expenses resulted in a loss from continuing operations of \$(1,010,000), or \$(.29) per share, for the first nine months of fiscal 1992. This compares to income of \$618,000, or \$.18 per share, for the first nine months of fiscal 1991. The LIFO method of accounting for inventories increased the loss by \$427,000, or \$.12 per share, in the nine months ended January 31, 1992, whereas the LIFO method reduced income by \$521,000, or \$.15 per share, in the comparable period a year ago.

In February 1992, the Financial Accounting Standards Board issued its new standard for accounting for income taxes. This standard will significantly change the accounting and reporting of income taxes and requires adoption by the Company no later than fiscal 1994. The Company does not plan to adopt the new standard until fiscal 1993 or 1994 and has not decided which implementation alternative (recording the cumulative effect of the new rules entirely in the year of implementation or restating prior year financial statements) it will utilize. Because of uncertainty as to the requirements of the new standard due to reconsideration by the Board and because of the choice of implementation alternatives, the effects of the new standard on the Company's financial position have not been determined in detail, however, they are not expected to be significant. (See Note 6 of Notes to Consolidated Financial Statements.)

Results of Operations - Third Quarter

Net sales during the third quarter of fiscal 1992 were \$63,369,000, representing a decrease of \$4,622,000, or 6.8%, from the third quarter of fiscal 1991. Sales growth with new and existing customers did not fully mitigate the previously reported loss of a significant customer.

Gross profit was \$3,219,000, or 5.1% of net sales during the quarter ended January 31, 1992. This compares to 5.9% for the quarter ended January 31, 1991 and 4.9% for fiscal year 1991.

The use of the LIFO method of inventory valuation increased the cost of goods sold by \$90,000 and \$113,000 during the third quarter of fiscal 1992 and 1991, respectively, over cost amounts determined on a FIFO basis.

KRELITZ INDUSTRIES, INC.
PART I, Continued

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Continued

Results of Operations - Third Quarter, Continued

Selling, general and administrative expenses totalled \$3,421,000, or 5.4% of net sales, for the third quarter ended January 31, 1992, an increase of \$153,000 for the same period one year earlier. These expenses were 4.8% of net sales for the third quarter ended January 31, 1991.

Interest expense was \$480,000 during the third quarter of fiscal 1992 versus \$624,000 for the third quarter of fiscal 1991. In view of the Company's current debt level and high ratio of debt to equity, interest expense is expected to remain a critical item in the future.

Other income was \$514,000 for the third quarter ended January 31, 1992, as compared to \$67,000 for the third quarter ended January 31, 1991. This increase was due to the gain on sale of real estate. (See Note 10 of Notes to Consolidated Financial Statements.)

Operations resulted in net loss from continuing operations of \$(111,000), or \$(.03) per share, for the third quarter of fiscal 1992. This compares to income of \$116,000, or \$.03 per share, for the third quarter of fiscal 1991. The LIFO method of accounting for inventories reduced reported earnings by \$60,000 or \$.02 per share, in the quarter ended January 31, 1992 versus \$172,000, or \$.05 per share, in the comparable period a year ago.

Financial Position/Liquidity

The Company's balance sheet reflects a strong liquidity position. At January 31, 1992, current assets exceeded current liabilities by \$12,942,000. This current ratio of 1.6 compares to a current ratio of 2.0 at April 27, 1991. This decrease is primarily a function of financing inventory through better utilization of trade credit. While trade payables have increased since year end, the Company continues to take advantage of all vendor discounts.

Inventory turnover for the nine months ended January 31, 1992 was 12 times as compared to 9.9 times for the fiscal year ended April 27, 1991. Accounts receivable days' sales outstanding for the nine months ended January 31, 1992 was 19 days as compared to 24 days for fiscal year end April 27, 1991. Merchandise inventories continue to turn at levels higher than industry norms and days' sales are less than industry averages.

Capital expenditures during the first nine months of fiscal 1992 totalled approximately \$994,000 compared to \$2,441,000 during the first nine months of fiscal 1991. The majority of these expenditures were for systems development incurred as part of a major replacement and improvement of the Company's management information system. The expenditures were funded with borrowings against the Company's line of credit.

The Company continues to be dependent upon borrowings against its bank line of credit to finance its operations. The Company's current line of credit for borrowings is \$24,000,000 with an interest rate of prime plus 1.5 percent. Terms and conditions of the agreement are discussed in Note 5 of Notes to Consolidated Financial Statements. Borrowings against the line of credit were \$15,753,000 at January 31, 1992 versus \$18,578,000 at April 27, 1991.

KRELITZ INDUSTRIES, INC.
PART I, Continued

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS. Continued

Results of Operations - Third Quarter, Continued

Financial Position/Liquidity, Continued

As of January 31, 1992, the Company was in default with respect to certain of the covenants of its line of credit agreement. Subsequently, waivers of certain covenants in default were received and the most restrictive covenant was amended to an amount with which the Company believes it will be in compliance at year-end.

KRELITZ INDUSTRIES, INC.

PART II

Item 1. Legal Proceedings

Other than as indicated in Note 7 of Notes to Consolidated Financial Statements, the Registrant is not a party to any legal proceedings involving a claim for damages exceeding 10% of the current assets of the Registrant, that are not adequately covered by insurance.

Item 4. Submission of Matters to a Vote of Security Holders

The material called for by this item is incorporated herein by reference to the Proxy Statement for the Registrant's Annual Meeting held on October 10, 1991.

Item 6. Exhibits and Reports on Form 8-K

The Registrant was not required to file any reports on Form 8-K for the three months ended January 31, 1992.

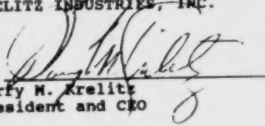
KRELITZ INDUSTRIES, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KRELITZ INDUSTRIES, INC.

Date: March 13, 1992

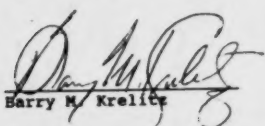
By 
Barry M. Krelitz
President and CEO

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature:

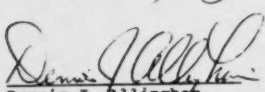
Title:

Date:


Barry M. Krelitz

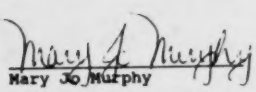
President,
Chief Executive Officer,
Treasurer and Director

March 13, 1992


Dennis J. Allingham

Senior Vice President
CFO, Asst. Treasurer
and Director

March 13, 1992


Mary Jo Murphy

Controller and
Chief Accounting Officer

March 13, 1992

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter ended January 31, 1992
Commission File Number 1-10629

LASER Vision
LASERVISION CENTERS, INC.

(Exact Name Of registrant as specified in its character)

PROCESSED BY
46-14-Z
JAN 23 1992
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Delaware (State or other jurisdiction of Incorporation or organization) #43-1530063 (I.R.S. Employer Identification No.)

3663 Lindell Boulevard, Suite 380, St. Louis, MO 63108
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (314)534-5500

Indicate by check mark whether the registrant:

- (1) ☐ has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and
- (2) ☐ has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

The number of shares of Common Stock outstanding as of March 1, 1992 was 2,290,000. The number of Redeemable class A Common Stock Purchase Warrants outstanding were 690,000. The number of Underwriter's Unit Warrants outstanding were 60,000.

**BEST COPY
AVAILABLE**

LASERVISION CENTERS, INC.
Form 10-Q For Quarter Ended January 31, 1992
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LASER VISION CENTERS, INC.
BALANCE SHEET

	AS OF JANUARY 31, 1992 (UNAUDITED)	AS OF JANUARY 31, 1991 (UNAUDITED)	AS OF APRIL 30, 1991
ASSETS			
CURRENT ASSETS:			
CASH	\$907,062	\$32,975	\$436,857
SHORT-TERM INVESTMENTS	562,646	-----	2,084,040
A/R LESS ALLOW. FOR DOUBT. ACCTS.	208,249	332,104	92,524
WORK IN PROCESS	-----	-----	24,607
PREPAID EXPENSES	8,800	-----	-----
ACCRUED INTEREST RECEIVABLE	28,380	-----	5,427
RELATED-PARTY RECEIVABLES	-----	-----	32,087
TOTAL CURRENT ASSETS	1,714,378	355,079	2,715,342
PROPERTY AND EQUIPMENT:			
FURNITURE AND FIXTURES	50,521	49,090	46,584
LASER VISION EQUIPMENT	1,137,796	-----	-----
LESS ACCUMULATED DEPRECIATION	(108,788)	(31,815)	(31,959)
TOTAL NET PROPERTY AND EQUIPMENT	1,079,530	17,275	14,625
OTHER ASSETS:			
DEFERRED FRANCHISE AGREEMENT COSTS	171,329	75,112	100,978
DEFERRED OFFERING COSTS	-----	320,820	-----
NOTE RECEIVABLE - FRANCHISEES	213,600	-----	-----
INVESTMENT	830,000	-----	-----
TOTAL OTHER ASSETS	1,214,929	395,932	100,978
TOTAL ASSETS	\$4,028,256	\$768,285	\$2,834,145

LASER VISION CENTERS, INC.
BALANCE SHEET (CONT.)

	AS OF JANUARY 31, 1992 (UNAUDITED)	AS OF JANUARY 31, 1991 (UNAUDITED)	AS OF APRIL 30, 1991
LIABILITIES			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	\$130,825	\$321,289	\$231,430
NOTES PAYABLE TO STOCKHOLDERS & RELATED PARTIES	-----	104,622	15,000
NOTES PAYABLE - EQUIPMENT LOAN	670,814	-----	-----
ACCRUED PAYROLL	-----	-----	40,094
TOTAL CURRENT LIABILITIES	821,438	625,910	286,524
LONG-TERM LIABILITIES:			
NOTE PAYABLE - EQUIPMENT LOAN	94,553	-----	-----
DEFERRED CREDIT - FRANCHISEES	290,000	-----	-----
TOTAL LONG-TERM LIABILITIES	384,553	-----	-----
TOTAL LIABILITIES	1,205,991	625,910	286,524
STOCKHOLDERS' EQUITY:			
COMMON STOCK			
10,000,000 SHARES OF \$0.1 PAR VALUE AUTHORIZED:			
2,290,000 SHARES ISSUED AND OUTSTANDING AS OF JAN. 31, 1992:			
1,000,000 SHARES ISSUED AND OUTSTANDING AS OF JAN. 31, 1991:			
2,090,000 SHARES ISSUED AND OUTSTANDING AS OF APRIL 30, 1991	22,900	14,800	26,900
PAID-IN CAPITAL	3,537,596	223,210	2,844,596
RETAINED EARNINGS (DEFICIT)	(738,251)	(94,835)	(337,875)
TOTAL STOCKHOLDERS' EQUITY	2,822,245	142,175	2,547,621
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$4,028,236	\$768,085	\$2,834,145

LASER VISION CENTERS, INC.
STATEMENT OF OPERATIONS
(UNAUDITED)

	THREE MONTH PERIOD ENDED JANUARY 31, 1992	THREE MONTH PERIOD ENDED JANUARY 31, 1991	NINE MONTH PERIOD ENDED JANUARY 31, 1992	NINE MONTH PERIOD ENDED JANUARY 31, 1991
REVENUES	\$254,473	\$284,734	\$669,255	\$1,080,499
COST OF REVENUES	130,729	157,328	418,532	751,645
GROSS PROFIT	83,744	107,406	250,723	328,854
EXPENSES:				
ADMINISTRATIVE AND GENERAL	156,865	100,621	415,629	375,691
RENT	11,321	-----	31,737	-----
SELLING EXPENSES	14,043	7,300	68,579	20,225
TOTAL EXPENSES	182,230	107,921	715,885	395,916
NET INCOME (LOSS) BEFORE OTHER INCOME	(98,486)	(314)	(465,162)	(67,062)
OTHER INCOME:				
INTEREST	16,218	-----	64,786	-----
NET INCOME (LOSS)	(\$82,268)	(\$314)	(\$400,376)	(\$67,062)
WEIGHTED AVERAGE SHARES OUTSTANDING	2,240,000	1,400,000	2,223,333	1,400,000
NET INCOME (LOSS) PER SHARE	(\$0.04)	(\$0.00)	(\$0.18)	(\$0.05)

STATEMENT OF CASH FLOWS
(UNAUDITED)

	THREE MONTH PERIOD ENDED JAN. 31, 1992	THREE MONTH PERIOD ENDED JAN. 31, 1991	NINE MONTH PERIOD ENDED JAN. 31, 1992	NINE MONTH PERIOD ENDED JAN. 31, 1991
CASH FLOWS FROM OPERATING ACTIVITIES:				
NET INCOME	(\$82,248)	(\$314)	(\$400,376)	(\$95,681)
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
DEPRECIATION	29,930	1,416	76,828	4,772
CAPITALIZED FRANCHISE COSTS	(67,351)	-----	(67,351)	-----
CHANGES IN CURRENT ASSETS: DECREASES ARE A SOURCE OF CASH. INCREASES ARE A (USE) OF CASH.				
AR LESS ALLOW. FOR DOUBT. ACCTS.	(45,687)	108,834	(115,725)	281,415
ACCRUED INTEREST RECEIVABLE	(5,093)	-----	(22,953)	-----
PREPAID EXPENSES	(8,000)	-----	(8,000)	-----
RELATED-PARTY RECEIVABLES	-----	-----	32,087	-----
WORK IN PROGRESS	9,941	-----	24,607	-----
CHANGES IN CURRENT LIABILITIES: INCREASES ARE A SOURCE OF CASH. DECREASES ARE A (USE) OF CASH.				
ACCOUNTS PAYABLE	(78,836)	(112,368)	(79,889)	(134,704)
PAYROLL TAXES WITHHELD	-----	-----	(817)	-----
DEFEREDS	-----	-----	-----	-----
ACCRUED WAGES	-----	-----	(60,694)	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES	(247,295)	(2,431)	(601,783)	(24,198)
CASH FLOWS FROM INVESTING ACTIVITIES:				
NET PROCEEDS FROM SALE OF ST INVESTMENTS	400,000	-----	1,521,354	-----
NET ACQUISITIONS OF FURNITURE AND FIXTURES	(1,721)	-----	(3,936)	0
NET ACQUISITION OF LASER VISION EQUIPMENT & DEFICITS	76,000	-----	(1,137,796)	-----
DEPOSITS RECEIVED FOR SALE OF EQUIPMENT/FRANCHISES	22,000	-----	77,000	-----
INVESTMENT - SpsA	-----	-----	(175,000)	-----
NET CASH FLOWS FROM INVESTING ACTIVITIES	496,279	-----	281,621	0
CASH FLOWS FROM FINANCING ACTIVITIES:				
NET DEBT BORROWINGS (PAYBACKS)	(99,283)	(340)	765,366	(1,361)
DEFERRED FRANCHISING AND OFFERING COSTS	-----	-----	-----	(140,433)
NET LOANS (PAYBACKS) FROM/TO STOCKHOLDERS	-----	(8,902)	(15,000)	167,882
NET CASH FLOWS FROM FINANCING ACTIVITIES	(99,283)	(9,242)	730,366	26,086
NET INCREASE (DECREASE) IN CASH	149,781	(11,673)	430,204	1,888
CASH AT BEGINNING OF PERIOD	757,281	24,648	478,857	21,087
CASH AT END OF PERIOD	\$907,062	\$12,975	\$909,062	\$22,975

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	COMMON STOCK \$0.01 PAR VALUE	PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
BALANCE - APRIL 30, 1990	\$14,000	\$305,709	(\$138,911)	\$180,798
CHANGES FOR THE SIX MONTH PERIOD ENDED OCTOBER 31, 1990				
NET INCOME (LOSS)			(66,738)	(66,738)
BALANCE - OCTOBER 31, 1990	14,000	305,709	(205,649)	114,060
CHANGES FOR THE THREE MONTH PERIOD ENDED JANUARY 31, 1991				
NET INCOME (LOSS)			(314)	(314)
BALANCE - JANUARY 31, 1991	14,000	305,709	(205,964)	113,745
CHANGES FOR THE THREE MONTH PERIOD ENDED APRIL 30, 1991				
NET INCOME (LOSS)			(131,912)	(131,912)
INITIAL PUBLIC OFFERING	6,960	2,558,887		2,565,847
BALANCE - APRIL 30, 1991	20,960	2,864,596	(337,875)	2,547,681
CHANGES FOR THE SIX MONTH PERIOD ENDED OCTOBER 31, 1991				
NET INCOME (LOSS)			(318,128)	(318,128)
STOCK PAYMENT FOR INVESTMENT - SpA	2,000	478,000		480,000
INCREASE VALUATION FOR INVESTMENT		150,000		150,000
BALANCE - OCTOBER 31, 1991	22,960	3,492,596	(656,004)	2,839,552
CHANGES FOR THE THREE MONTH PERIOD ENDED JANUARY 31, 1992				
INCREASE VALUATION FOR INVESTMENT		45,000		45,000
NET INCOME (LOSS)			(82,248)	(82,248)
BALANCE - JANUARY 31, 1992	\$22,960	\$3,537,596	(\$738,251)	\$2,822,245

LASERVISION CENTERS, INC
Notes to Interim Consolidated Financial Statements
For the Three Months and Nine Months
January 31, 1992 and 1991
(Unaudited)

ITEM 1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited financial statements of the Company contain all adjustments necessary to present fairly its financial position as of January 31, 1992 and its results of operations and cash flows for the three month and nine month periods ended January 31, 1992 and 1991. These statements were prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to form 10-Q and Article 10 of Regulation S-X and should be read in conjunction with the Company's audited financial statements and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended April 30, 1991.

Nature of Organization

LaserVision Centers, Inc., formerly MarketVision, a General Partnership (LVC/the Company) was incorporated in Delaware in December 1988 primarily for the purpose of acquiring MarketVision, an operating partnership. MarketVision (the Partnership) was organized as a general partnership in 1986 as a marketing/advertising agency offering marketing programs and services primarily to the medical services industry, including doctors, hospitals, clinics, and outpatient surgi-centers. In 1989, the Company expanded its marketing/advertising services to include commercial businesses.

In October 1989, LVC and the partners of MarketVision executed an agreement, whereby the partners of MarketVision exchanged their entire partnership interest in Marketvision for 1,200,000 shares of LVC common stock. This transaction has been recorded as a recapitalization of Marketvision. Accordingly, the accompanying financial statements reflect the accounts and operations of Marketvision for all periods presented. The operations of LVC from its inception through April 30, 1990 were not significant.

Short-Term Investment

Short-term investments are recorded at cost, which approximates market.

Work in Process

Work in process consists of direct outside costs of uncompleted jobs and is valued at the lower of cost or market on the specific-identification method.

Equipment

Equipment is stated at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is computed utilizing the straight-line method. In the opinion of management, this method is adequate to allocate the cost of equipment over their estimated useful lives.

LASERVISION CENTERS, INC
Notes to Interim Consolidated Financial Statements (Continued)

Deferred Offering Costs

Legal, accounting, and other costs related to the Company's public offering were initially capitalized as deferred offering costs. These costs were Subsequently offset against the proceeds of the public offering as a charge to paid-in capital.

Deferred Franchise Costs

Legal fees and other direct costs associated with the formation of the Company's proposed franchising arrangement are capitalized as deferred franchise costs. These costs will be amortized over five years, beginning with the commencement of franchise operations.

Loss Per Share

Net loss per common share is based upon the weighted average number of shares outstanding during the period. The weighted average number of shares outstanding has been adjusted to reflect the issuance of common stock for the acquisition of MarketVision and the private placement of common stock as if they occurred as of the beginning of the period for which loss per share is presented. The calculations ignore common stock equivalent shares when their inclusion in such calculations would have been antidiuitive.

Recent Events

On May 23, 1991 the Company entered into a joint investment with LaserVision Center International SpA("LVC SpA"), an Italian Corporation, which intends to operate and franchise similar laser vision centers to those of the Company in their exclusive marketing area of the EEC countries, Scandinavian and Eastern European countries, as well as Switzerland. LVC-SpA agreed that the Company would have the exclusive marketing area of North America, Central America and the Caribbean.

The Company invested \$175,000 and 200,000 shares of its Common Stock, as well as a five year option to purchase an additional 50,000 shares of the Company's Common Stock at an exercise price of \$6 per share, in consideration of 287,500 shares of LVC-SpA Common Stock(approximately 11.5% of LVC-SpA) and warrants to purchases 50,000 shares at the exercise price of approximately \$5 per share (US) for a two year period and, if exercised, a Class B Warrant to purchase 50,000 shares at the exercise price of approximately \$6 per share (US).

The Company has agreed not to sell 155,000 of its LVC-SpA shares until July 26, 1992; and 45,000 of its shares until January 26, 1992.

Even though by virtue of the size of the Company's investment (11.5%) LVC-SpA is deemed to be an affiliate of the Company as well as a licensee of the name, both companies are independent and will not share revenues, fees or other compensation other than as mutual shareholders. However, the companies agreed to share any information of experience gained in the operation of the companies that would assist the other company in their business, except in conflict areas.

LASERVISION CENTERS, INC
Notes to Interim Consolidated Financial Statements (Continued)

On July 26, 1991 LVC-SpA closed its Italian public offering by selling 800,000 Units (each Unit consisting of one share of Common Stock and one Class A Warrant) at approximately \$5 per Unit for total funds \$3,120,000. LVC-SpA intends to apply for ADR and NASDAQ trading in the United States in the near future.

In May 1991, the Company entered into an agreement with a stockholder of the Company, whereby the Company agreed to assume the stockholder's capital lease of a VISX Twenty/Twenty Excimer Laser System for use in establishing a prototype LaserVision Center. The lease commenced July 31, 1990 and has a term of 36 months, with rental payments of approximately \$16,000 per month and a purchase option of \$1.00 upon satisfaction of all rentals. In connection with the assignment of the prototype Laser, the Company reimbursed the stockholder \$190,586 for his costs and expenses incurred in connection with the acquisition, improvements and maintenance of the Laser. The stockholder also assigned to the Company his right to purchase ten VISX Twenty/Twenty Excimer Laser Systems (the Lasers) within three months after pre-market approval (PMA) by the United States Food and Drug Administration for use of the Laser. The agreement required the Company to make an initial deposit of \$50,000 (\$5,000 per Laser) to VISX. The Company has also agreed to pay the stockholder \$100 per laser treatment performed on these ten Laser systems. The stockholder also assigned to the Company his right to purchase one laser for use outside of the United States, at a discounted price of \$350,000.

In May 1991, the Company granted five year options to executive officers and employees pursuant to the Incentive Stock Option Plan to purchase an aggregate of 106,500 shares of common stock, of which 94,000 shares relate to officers, at an exercise price of \$6.00 per share, exercisable in increments during the initial four years.

In May 1991, the Company granted five-year options to four of its qualified outside directors and consultants pursuant to the non-qualified Stock Option Plan to purchase an aggregate of 60,000 shares of common stock at an exercise price of \$6.00 per share, 30,000 of which are exercisable in increments during the initial two years.

In September 1991, the Company granted five year options to executive officers and employees pursuant to the Incentive Stock Option Plan to purchase an aggregate of 26,000 shares of common stock, of which 21,000 relate to officers, at an exercise price of \$4.75 per share, exercisable in increments during the initial four years.

In September 1991, the Company granted five year options to four of its qualified outside directors and consultants pursuant to the nonqualified Stock Option Plan to purchase an aggregate of 30,000 shares of common stock at an exercise price of \$4.75 per share, 20,000 of which are exercisable in increments during the initial two years.

On October 31, 1991, the Company entered into agreement with Alberta LaserVision Center LTD, Calgary, Alberta (ALVC) (an Alberta Corporation) for the purchase of ALVC rights, title and interest in a VISX Excimer Laser previously purchased by ALVC for the purchase price of \$628,600 (approximately \$560,000 U.S.) Canadian dollars. The Company anticipates it and ALVC will enter into additional agreements in the near future, including a division of profits and losses from the operation of the equipment and the center (VS) \$550 per case for

LASERVISION CENTERS, INC

Notes to Interim Consolidated Financial Statements (Continued)

the first 40 eyes per month, and \$500 per case thereafter. The Company pays for lease maintenance, gases and advertising (which the Company anticipated approximately \$18,000 to \$23,000 per month).

On January 21, 1992 the Company executed a modified Agreement with Alberta LaserVision Center, LTD. The Company funded the purchase of the said VISX laser by a loan by the Company of \$500,000 from The Boatmen's National Bank of St. Louis (Missouri). The loan bears interest @ 6.15% per annum and is payable on demand.

On December 12, 1991 the Company entered into an Agreement with Chester Financial Incorporated, a New York based financial consulting organization, wherein Chester agreed to provide the Company with advisory services in areas of investor relations, financial community relations, media relations, corporate development and finance. The Agreement was for a three month period beginning January 1, 1992, and encompasses a fee of \$12,000 (as a quarterly retainer) plus a one time warrant to purchase 50,000 shares of the Company's common stock at a price of \$5.00 per share. The warrant can be exercised within a five year period from date of the Agreement, and vested 12,500 (shares to be purchased) on January 1, 1992, and 12,500 (shares to be purchased) each quarter subsequent, wherein which quarter the Agreement is reviewed.

LASERVISION CENTERS, INC
Notes to Interim Consolidated Financial Statements (Continued)

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

(A) LIQUIDITY AND CAPITAL RESOURCES

In April 1991, the Company completed the initial public offering of common stock. The gross proceeds of the offering totaled \$3,450,000, with net proceeds of \$2,565,787(after deductions and all associated costs).

Prior to the closing of the initial public offering, the Company had funded its operations primarily through internally generated funds, short-term working capital borrowings from shareholders and the sale of stock in a private placement completed in January 1990, for \$150,000.

Proceeds from the offering have been used to repay certain loans associated with the offerings and to fund the general and administrative, legal and capital costs of implementing the Company's intended LaserVision Centers, Inc. franchise program. Such expenditures have included but were not limited to the purchase of laser systems, compensation for a laser system technician, customized van for transportation of laser systems and possible investments in similar companies outside of the United States. Management believes that if additional funding is required it will be provided through conventional debt financing from third party sources such as banks and leasing companies, or by private placement or additional equity financing. The Company has no commitments to obtain such capital and there can be no assurance that such capital will be available when needed, or if available, that the terms for obtaining such funds will be favorable to the Company. In addition, the Company will be dependent upon obtaining financing, through leasing or other arrangements, for coordinating the purchase of laser equipment to be used in the LaserVision Centers. There can be no assurance that such financing will be obtained or, if obtained, will be on terms favorable to the Company.

(B) RESULTS OF OPERATIONS

1. Three Months Ended January 31, 1992 compared to January 31, 1991.

Revenues

Revenues decreased from \$264,734 during the three months ended January 31, 1991 to \$234,473 during the three months ended January 31, 1992.(11.4%) The decrease was primarily attributable to these factors: a softening economy and reduced spending from current clients.

Cost Of Revenue

Cost of revenues decreased approximately \$6,600 or 4.2%, and the gross profit decreased by

LASERVISION CENTERS, INC
Notes to Interim Consolidated Financial Statements (Continued)

approximately \$23,662 or 2.2%, and the gross profit percentage decreased by 5%. Management believes the decrease in overall costs of revenue is attributable to the sale of higher margin products.

General and Administrative and Other Expenses

General, administrative and other expenses increased to \$182,230 in the period, an increase of approximately \$74,500 or 41%. This increase is a direct result of increased resources being spent on the LaserVision Centers, Inc. franchise agreements and related developmental operations, especially legal costs which are exceeding the expectations because the number of client negotiations has been higher than expected, financial public relations costs, the cost of operating as a public company which did not exist previously, the operation of a prototype training center (which was not purchased in the previous period) which does not generate significant revenues, and costs related to the development of the Company's first operational center in Calgary, Alberta.

Net loss increased to \$98,486 during the period, an increase of approximately \$98,172 or 99%. The increase is attributable to the general and administrative expenses associated with the formation of the franchises, and the development of the Company's first center in Calgary which opened in January 1992.

2. Nine Months Ended January 31, 1992 compared to January 31, 1991.

Revenues

Revenues substantially decreased to \$669,255 during the period, a decrease of approximately \$411,244 or 38%, from the prior period. The decrease was primarily attributable to three factors: the phase out of a major client, a softening economy, and limited air time availability due to the Persian Gulf War and Management's diversion from the marketing division to handle the unexpectedly high number of leads in the LaserVision Division. In fiscal 1991 the Company completed its phase out of a major client due to its realization of low profit margins on the account. The revenues listed are from the Company's MarketVision division and do not reflect any significant revenues from the Company's LaserVision Centers Division which has just opened its first center in Alberta, Canada.

Cost of Revenue

Cost of revenues decreased \$333,113 or 44%, and the gross profit decreased by approximately \$78,132 or 24%, while the gross profit percentage increased from 30.4% to 37.5%. Management believes the decrease in overall costs of revenue and gross profit and the increase in the gross profit percentage is attributable to the phase out of a major client in fiscal 1991, which had produced significantly lower profit margins and to the Company's decrease in radio and air time advertising, coupled with an increase in direct mail services, which have historically provided higher profit margins.

General and Administrative and Other Expenses

LASERVISION CENTERS, INC
Notes to Interim Consolidated Financial Statements (Continued)

General, administrative and other expenses increased to \$715,885 during the period, an increase of approximately \$319,969 or 45%. This increase is a direct result of increased resources being spent on the LaserVision Centers, Inc. franchise agreements and related developmental operations, especially legal and other professional services related to the operation of a public company and to the opening of the Company's first operational center in Calgary, Alberta and lower than expected interest income due to the declining economy; legal and professional costs are exceeding the expectations because of the number of client negotiations which has been higher than expected.

Net loss increased to \$465,162 in the period, an increase of approximately \$398,100 or 86%. The increase is attributable to the general and administrative expenses associated with the formation of the franchises the negative cash flow from operating the Company's prototype and demonstration centers, start up expenses for the Alberta, Canada centers, as well as public company activities.

LASERVISION CENTERS, INC.

PART II - OTHER INFORMATION

- Item 1. Legal proceedings
None
- Item 2. Changes in Securities
None
- Item 3. Defaults upon Senior Securities
None
- Item 4. Submission of Matters to a Vote of Security Holders
None
- Item 5. Other Information

On October 31, 1991 the Company entered into an Agreement with Alberta Laser Vision Center, LTD., a Canadian (Alberta) Corporation ("ALVC") within which the Company acquired rights to a laser from ALVC, and granted to ALVC the rights to use the name "Laser Vision Center."

On January 21, 1992 the Company executed a modified Agreement with Alberta LaserVision Center, LTD. The Company funded the purchase of the said VISX laser by a loan by the Company of \$500,000 from The Boatmen's National Bank of St. Louis (Missouri). The loan bears interest @ 6.15% per annum and is payable on demand.

On December 12, 1991 the Company entered into an Agreement with Chester Financial Incorporated, a New York based financial consulting organization, wherein Chester agreed to provide the Company with advisory services in areas of investor relations, financial community relations, media relations, corporate development and finance. The Agreement was for a three month period beginning January 1, 1992, and encompasses a fee of \$12,000 (as a quarterly retainer) plus a one time warrant to purchase 50,000 shares of the Company's common stock at a price of \$5.00 per share. The warrant can be exercised within a five year period from date of the Agreement, and vested 12,500 (shares to be purchased) on January 1, 1992, and 12,500 (shares to be purchased) each quarter subsequent, wherein which quarter the Agreement is reviewed.

LASERVISION CENTERS, INC.
OTHER INFORMATION (CONTINUED)

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

1. Sale and license Agreement between Laser Vision Centers, Inc. and Alberta Laser Vision Center, LTD. dated October 31, 1991.
2. Loan documentation (including Security Agreement Collateral Assignments) pertaining to a secured loan between Company and the Boatmen's National Bank of St. Louis (Missouri).
3. Fee Agreement dated December 12, 1991 by and between the Company and Chester Financial Incorporated.

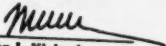
b. Reports on Form 8-K

None

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LASERVISION CENTERS, INC.


John J. Klobnak
President and
Chief Executive Officer

3-13-92
DATE

EXHIBIT 1

SALES AND LICENSE AGREEMENT BETWEEN LASER VISION CENTERS,
INC. AND ALBERTA VISION CENTER, LTD. DATED OCTOBER 31, 1991.

SALE AND LICENSE AGREEMENT

BETWEEN:

LASER VISION CENTERS, INC., a Delaware corporation with offices at Suite 380, 3663 Lindell Blvd., St. Louis, Missouri, 63108 ("LVCI")

OF THE FIRST PART

- and -

ALBERTA LASER VISION CENTRE LTD., an Alberta corporation with offices at #600, 6455 Macleod Trail South, Calgary, Alberta, T2H 0K9 ("ALVC")

OF THE SECOND PART

WHEREAS in this Agreement words with initial capitals are defined in Schedule A;

AND WHEREAS ALVC owns an Excimer Laser manufactured by VISX and is in possession of it;

WHEREAS LVCI wishes to acquire the Excimer Laser from ALVC and to grant ALVC the license to use the Excimer Laser pursuant to the terms and conditions of this Agreement;

WHEREAS LVCI has agreed to license to ALVC any rights LVCI has to the name "Laser Vision Centre" pursuant to the terms and conditions of this Agreement.

NOW THEREFORE IT IS AGREED:

1. **SALE**

1.1 ALVC hereby sells to LVCI all its right, title and interest in the Excimer Laser for the purchase price of Cdn. \$628,600.

1.2 ALVC hereby warrants and represents to LVCI that presently and on the date of transfer of title to the Excimer Laser:

- (a) ALVC has title to the Excimer Laser free and clear of all encumbrances (other than the right of VISX to receive a royalty), and has the right to sell it; and
- (b) to the best of its knowledge, the Excimer Laser is and will be in good working condition.

1.3 ALVC shall make available to LVCI the benefit of the warranties provided by VISX, but otherwise ALVC makes no warranties or representations concerning the Excimer Laser other than those contained in Section 1.2. Without limitation, ALVC hereby disclaims any and all other warranties, conditions or representations (express or implied, oral or written) with respect to the Excimer Laser or any part thereof, including any and all implied warranties or conditions of title, non-infringement, merchantability, or fitness or suitability for any purpose, which arise by law, or by reason of custom or usage of the trade, by course of dealing or otherwise.

2. **GRANT**

2.1 LVCI hereby grants to ALVC the right to possess and use the Excimer Laser during the term of this Agreement pursuant to provisions of this Agreement. LVCI shall not do anything that would result in ALVC losing access to or possession of the Excimer Laser except pursuant to Section 13.4.

2.2 ALVC shall use the Excimer Laser only in accordance with the directions, if any, of the manufacturer of the Excimer Laser and in accordance with the reasonable direction of LVCI.

2.3 ALVC shall permit the Excimer Laser to be used only by the Medical Director and any other ophthalmologist authorized by the Medical Director.

2.4 ALVC shall encourage other properly trained ophthalmologists selected by the Medical Director to use the Excimer Laser. ALVC shall cause the Medical Director to be reasonable in his/her selection of ophthalmologists to encourage the increased use of the Excimer Laser.

3. OWNERSHIP AND TRADEMARK

3.1 LVCI shall be the owner of the Excimer Laser. ALVC shall have no interest in the Excimer Laser except pursuant to the license granted by this Agreement.

3.2 During the term of this Agreement, LVCI grants any interest it has in the trademark to ALVC to use the name "Laser Vision Center" in its corporate name and in the name of the business which provides the services of the Excimer Laser.

4. LOCATION

The Excimer Laser shall be kept in the Premises and may only be moved to another location with the consent of LVCI, which consent shall not be unreasonably withheld.

5. IMPROVEMENTS AND MODIFICATIONS

5.1 LVCI shall, at its cost, obtain and provide to ALVC any Improvements and Modifications offered from time to time by VISX or which is commercially and legally

offered from time to time by another supplier with the intent that the Excimer Laser shall be maintained as "state of the art" but only if the effect of any such Improvement or Modification is to improve the efficacy or safety of the Excimer Laser or the PRK or PTK procedures and, in the case of improved efficacy, ALVC is being put to a competitive disadvantage by not having access to such Improvement or Modification.

6. **LIMITED WARRANTIES**

6.1 LVCI shall make available to ALVC the benefit of the warranties provided by VISX, but otherwise LVCI makes no warranties or representations related to the Excimer Laser or its use. Without limitation, LVCI disclaims any and all other warranties, conditions or representations (express or implied, oral or written) with respect to the Excimer Laser or any part thereof, including any and all implied warranties or conditions of title, non-infringement, merchantability, or fitness or suitability for any purpose, which arise by law, or by reason of custom or usage of the trade, by course of dealing or otherwise.

7. **MARKETING**

7.1 LVCI shall diligently and effectively market the use of the Excimer Laser by ALVC in:

- (a) the Cities of Calgary and Edmonton,
- (b) the Province of Alberta generally,
- (c) eastern British Columbia,
- (d) the Provinces of Saskatchewan and Manitoba, and,
- (e) the United States, until full FDA approval is granted which will permit American ophthalmologists to use the Excimer Laser in the United States

and, after FDA approval is granted, North and South Dakota, Wyoming, Montana and Northern Idaho.

7.2 LVCI's marketing shall include, but not be limited to, the following activities:

- (a) media marketing; and
- (b) professional relations.

7.3 In pursuance of this marketing, LVCI shall expend at least Cdn. \$6,000 per month over 8 months of each 12 month period following the Effective Date.

7.4 At least once each calendar quarter, LVCI shall consult with ALVC concerning appropriate marketing measures and shall endeavour to comply with the reasonable suggestions of ALVC.

7.5 ALVC shall endeavour to add six more surgeons as users of the Excimer Laser. ALVC shall provide the required training to the six additional surgeons at no cost to LVCI.

7.6 ALVC shall endeavour to develop referrals from optometrists, ophthalmologists and other eye care professionals.

8. COSTS OF USE

8.1 LVCI shall pay the following costs related to the use of the Excimer Laser:

- (a) the costs of all gas used by the Excimer Laser, and
- (b) all cost related to the servicing and maintenance of the Excimer Laser, provided that if the present service/maintenance agreement with Sigmacom

cannot be terminated without cost to ALVC, LVCI shall pay one-half of Sigmacom's charge pursuant to that service/maintenance agreement, and ALVC shall pay the other half of such charges until the Sigmacom service/maintenance agreement may be lawfully terminated.

8.2 ALVC shall pay the following amounts related to the use of the Laser Facility:

- (a) the LVCI fee referred to in Section 9.1,
- (b) 100% of any royalty payable to VISX as a result of such use, and
- (c) all operating costs other than those listed in Section 8.1, including, without limitation, the following:
 - (i) doctor's fees,
 - (ii) salaries and benefits,
 - (iii) rent on the topographic modeler,
 - (iv) cleaning and janitorial costs,
 - (v) costs for heating, light and power,
 - (vi) costs for insurance on the Excimer Laser,
 - (vii) rent,
 - (viii) stationery and telephone,

- (ix) all risk insurance for the Equipment to the extent normally carried by a company of this nature, and
- (x) all other expenses necessarily incidental to the performance of PRKs and PTKs.

8.3 LVCI shall reasonably assist ALVC to terminate its obligations, if any, to pay royalties to VISX.

9. LVCI FEE

9.1 For each use of the Excimer Laser ALVC shall pay the relevant LVCI fee, calculated as follows:

- (a) U.S. \$550 for each of the first 40 PRKs performed on one eye with the Equipment in any month and U.S. \$500 for each additional PRK performed on one eye with the Equipment in that month; and
- (b) U.S. \$300 for each PTK performed on one eye with the Equipment;

subject to adjustment pursuant to Section 9.3;

9.2 Although ALVC has the right to set prices, it is anticipated the amount charged to each patient by ALVC shall be the Standard Amounts.

9.3 If ALVC reasonably decides for competitive reasons to reduce the amount charged to patients for a PRK or a PTK below Standard Amounts, then the LVCI Fee payable as a result of those procedures shall be reduced pro rata according to the proportionate reduction of those patient charges.

9.4 Within 20 days of the end of each calendar month, ALVC shall:

- (a) deliver to LVCI a record of all usage of the Excimer Laser in that month; and
- (b) pay to LVCI the amount due for LVCI Fees as a result of the usage of the Excimer Laser in that month;

9.5 Amounts payable to LVCI shall be in U.S. currency unless otherwise agreed.

9.6 ALVC may deduct from the amounts payable to LVCI the amount due by LVCI to Sigmacom pursuant to Section 8.1(b) if it pays such amount to Sigmacom.

10. ASSIGNMENT

10.1 ALVC may assign this Agreement and the resulting licensed possession and use of the Excimer Laser only with the prior written approval of LVCI, which shall not be withhold unreasonably.

10.2 LVCI may assign its interest in this Agreement only with prior written approval of ALVC which shall not withhold unreasonably.

10.3 If during the term of this License or for a period of 6 months thereafter, LVCI (or any successor in interest to the Excimer Laser committed pursuant to this Agreement or as a result of involuntary succession such as by bankruptcy) decides to sell the Excimer Laser:

- (a) LVCI shall first give written notice to ALVC with details of the third party offer, if any, and thereby offer ALVC the right to purchase the Excimer Laser at the lesser of fair market value or any amount offered by a third party;
- (b) ALVC may exercise this right to purchase within 10 business days of receipt of such first refusal notice to ALVC;

- (c) if ALVC accepts the offer a transaction shall complete at the offices of Macleod Dixon, Calgary or elsewhere as the parties may agree on the later of:
 - (i) 60 days following receipt of such first refusal notice,
 - (ii) the dates set for closing of the third party's offer, or
 - (iii) the date the purchase price is determined by arbitration pursuant to Article 15;
- (d) at closing, ALVC shall tender the same consideration and closing documents as were offered by the third party and LVCI shall provide the same closing documents as were required from the third party;
- (e) no offer from a third party shall involve consideration stated in anything other than Canadian or American currency;
- (f) If ALVC does not accept such offer, LVCI may sell the Excimer Laser to a third party, subject to ALVC's rights pursuant to this Agreement, but any such sale must be at a price at least equal to the price offered to ALVC by the third party; and
- (g) If there is any dispute as to fair market value, the matter shall be referred to arbitration pursuant to Article 15.

10.4 Except pursuant to Section 10.3, LVCI shall not sell or otherwise transfer any interest in the Excimer Laser during the term of this license provided that LVCI may mortgage or otherwise charge its interest if the lender agrees to be bound by the terms of this Agreement if it takes any action to realize on its security.

11. RISK OF USE

11.1 All the risk of use of the Excimer Laser shall be with ALVC, provided that this covenant shall not reduce any liability VISX may have as a result of ALVC's possession or use of the Excimer Laser.

11.2 ALVC and all authorized ophthalmologists shall use the Excimer Laser only in accordance with:

- (a) all Canadian Government rules and regulations,
- (b) any instruction of the manufacturer of the Excimer Laser, and
- (c) prudent medical practice.

12. TERM

12.1 The term of this Agreement and the resulting license shall be five years from the Effective Date unless terminated earlier pursuant to the terms of this Agreement.

13. TERMINATION

13.1 This Agreement may be terminated on the mutual consent of the parties upon such terms as they may agree in writing.

13.2 LVCI may terminate this Agreement at its option if:

- (a) ALVC has failed to make any payment and has not cured such breach within 10 days following a written request for the remedy of such non-payment; and

(b) in the months of February, March and April 1993 the aggregate of:

- (i) the direct costs of LVCI financing the Excimer Laser for that three month period (it being assumed that the annual direct costs of financing are the same for each month, subject only to variations for the number of days in that month); and
- (ii) the amounts payable pursuant to Sections 7.3 and 8.1 of this Agreement as a result of the use of the Excimer Laser during that three month period

IS LESS THAN the amounts payable by ALVC pursuant to Section 8.2(a) of this Agreement as a result of the use of the Excimer Laser during that three month period, and LVCI has given ALVC 30 days' notice of its intent to terminate pursuant to this provision.

13.3 If LVCI terminates this Agreement pursuant to Section 13.2:

- (a) it shall give ALVC the right to purchase the Excimer Laser by assumption of the loan agreement then charging the Excimer Laser, which right may be exercised within 30 days of termination; and
- (b) if ALVC does not exercise such right to purchase, LVCI may remove the Excimer Laser upon 30 days notice to ALVC; but if it offers to sell the Excimer Laser to any other party, it must comply with the provisions of Section 10.3.

13.4 Either party may terminate this agreement at its option on 30 days' notice to the other party if:

- (a) the other party has breached the Agreement and has not cured the breach within 30 days following a written request for the remedy of such breach; and

(b) the other party:

(i) files a petition in bankruptcy,

(ii) is the subject of an involuntary petition in bankruptcy that is not dismissed within 60 days after the effective filing date thereof,

(iii) is or becomes insolvent, or

(iv) admits of the inability to pay its liabilities generally as they become due.

13.5 ALVC may terminate this Agreement if for any reason the use of the Excimer Laser:

(a) becomes unlawful, or

(b) is considered to involve a level of risk which ALVC reasonably considers to be abnormal or unacceptable.

13.6 Upon the termination of this Agreement, unless otherwise agreed by the parties:

(a) ALVC shall cease the continued use of the Excimer Laser, and

(b) LVCI shall forthwith remove the Excimer Laser provided that if this is not done within a period of 60 days following the termination, at the expense of LVCI, ALVC may cause its removal and may return the Excimer Laser to LVCI.

13.7 All remedies available to each party shall survive the termination of this Agreement.

14. DISPUTE NEGOTIATION

14.1 If any dispute between the parties arising from or related to the subject matter of this Agreement is not resolved by agreement between the parties, prior to commencing legal action with respect to the dispute (other than seeking injunctive relief), the party believing itself aggrieved (the "Invoking Party") shall call for management involvement in the dispute negotiation by notice to the other party. Such notice shall be without prejudice to the Invoking Party's right to any remedy permitted by this Agreement.

14.2 The parties shall use their best efforts to arrange personal meetings and any telephone conversations as needed, at mutually convenient times and places, between the president of ALVC and John J. Klobnak for LVCI or such other senior officer as may be appointed by either of them from time to time, and:

- (a) the negotiators shall have a period of 10 business days in which to attempt to resolve the dispute; and
- (b) if a complete resolution is not achieved by these senior managers within the allotted time, then either party (the "Claimant") may invoke its rights pursuant to this Agreement including termination and the right to require arbitration pursuant to Article 15.

15. ARBITRATION

15.1 A dispute between the parties which cannot be settled shall be referred to and determined by arbitration in Calgary in accordance with the rules of the American Arbitration Association.

16. **NO PARTNERSHIP**

16.1 Nothing in this Agreement shall be considered to constitute a partnership between the parties; rather the relationship is that of independent licensor and licensee.

17. **FORCE MAJEURE**

17.1 Each party shall be excused from any non-performance of any obligation imposed upon it by this Agreement which is proximately caused by government regulation, war, strike, act of God, or other similar circumstance normally deemed outside the control of well-managed businesses (other than financial constraints).

18. **NOTICES**

18.1 Any notice required or permitted to be given hereunder shall be in writing in the English language and shall be effectively given if delivered personally or sent prepaid by telecopier, telex, facsimile transmission or other similar means of electronic communication (confirmed on the same or following day by prepaid mail) or by prepaid mail addressed to the addresses shown on page 1 of this Agreement.

18.2 Any notice so given shall be deemed conclusively to have been given and received when personally delivered, or if sent by telex, telecopier or other electronic communication, on the first business day thereafter, or if sent by prepaid mail, seven business days thereafter.

18.3 Any party may change its address for notice by notice to the other party in the manner aforesaid.

19. GENERAL COVENANTS

19.1 Failure of either party to enforce or insist upon compliance with any of the terms of this Agreement shall not constitute a general waiver or relinquishment of any such term or provision but the same shall be and remain at all times in full force and effect.

19.2 This Agreement shall be governed, interpreted and construed in accordance with the laws of or applicable to the State of Delaware.

19.3 Each of the parties hereto will from time to time at the other's request and without further consideration, execute and deliver such other instruments of transfer, conveyance and assignment and take such further action as the other may require to more effectively complete any matter provided for herein.

19.4 This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

19.5 This Agreement may not be modified or amended except in writing signed by a duly authorized representative of each party hereto.

19.6 This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all previous agreements or representations, written or oral. In the case of any conflict between the terms of such agreements, the terms of this Agreement shall govern. This Agreement may not be modified or amended except in writing signed by a duly authorized representative of each party.

20. REPRESENTATION OF COUNSEL

20.1 Each party has been represented by counsel of its choice in negotiating this Agreement. This Agreement shall therefore be deemed to have been negotiated and

prepared at the joint request, direction and construction of the parties, at arms length, with the advice and participation of counsel, and shall be interpreted in accordance with its terms without favour to any party.

21. **EFFECTIVE DATE**

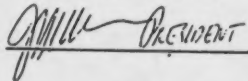
21.1 This Agreement shall become effective on the Effective Date.

22. **COUNTERPARTS**

22.1 This Agreement may be executed in separate counterparts, each of which so executed and delivered shall constitute an original, but all such counterparts shall together constitute one and the same instrument.

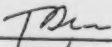
IN WITNESS WHEREOF the parties hereto have caused this Agreement to be duly executed on their behalf by their duly authorized officers and representatives on the 31 day of October, 1991, in a manner legally binding upon them.

LASER VISION CENTERS, INC.

Per:  PRESIDENT

Per: _____

ALBERTA LASER VISION CENTRE
LIMITED

Per:  J. D. Thompson

Per: _____

SCHEDULE "A"

- (a) **"ALVC"** means Alberta Laser Vision Centre;
- (b) **"Agreement"** means this Agreement and any schedules to this agreement;
- (c) **"Article"** means an article of this agreement;
- (d) **"Claimant"** as defined in Section 13.2(b);
- (e) **"Effective Date"** means December 1, 1991;
- (f) **"Excimer Laser"** means the equipment described on Schedule "B";
- (g) **"Improvement"** means the addition of a compatible items to the Excimer Laser which will include or enhance its performance or increase its safety;
- (h) **"Invoking Party"** is defined in Section 13.1;
- (i) **"LVCI"** means Laser Vision Centers Inc.;
- (j) **"LVCI Fee"** is defined in Section 9.1;
- (k) **"Medical Director"** means Dr. Jans or any other Ophthalmologist selected by ALVC to act as medical director with the consent of LVCI, consent not to be unreasonably withheld;
- (l) **"Modifications"** means a modification to the Excimer Laser for example but without limitation, the replacement of an item with another item, with the intention of improving the performance of the Excimer Laser or increasing its safety;

- (m) **"PRK"** means a photorefractive keratectomy;
- (n) **"PTK"** means phototheurapeutic keratectomy;
- (o) **"Premises"** means the premises at which the Excimer Laser is presently located, and any other premises to which the Excimer Laser is moved with the consent of LVCI pursuant to this Agreement;
- (p) **"Respondent"** is the party which is not the Claimant;
- (q) **"Section"** means a section or subsection of this Agreement.
- (r) **"Standard Amounts"** mean:
 - (i) Cdn. \$2,500 for a PRK; and
 - (ii) Cdn. \$1,500 for a PTK.

EXHIBIT 2

LOAN DOCUMENTATION BETWEEN COMPANY AND BOATHEN'S NATIONAL
BANK OF ST. LOUIS (MISSOURI).

BOATMEN'SSt. Louis, Mo., January 17, 19 92On demand and if no demand be made, then on April 17, 19 92, I/we promise to pay to the order of**The Boatmen's National Bank of St. Louis**

FIVE HUNDRED THOUSAND AND NO/100-----dollars for value received, together with interest thereon from date at the rate of _____ per cent per annum payable MONTHLY and from maturity at the rate of two (2%) per cent per annum over the stated rate in this note. If this note be not paid at maturity and if it should be placed in the hands of an attorney for collection, the parties hereto agree to pay in addition all costs of collection and fifteen per cent of the amount due hereon as an attorney's fees.

Payable at any of the offices of **The Boatmen's National Bank of St. Louis**☒ This note is secured by a Security Agreement dated JANUARY 17, 19 92 covering the following:BHS C/D

Presentment for payment and notice of dishonor are hereby waived by all parties whether as makers, endorsers, guarantors, payees, assignees or in any other capacity and this note may be extended or renewed and waivers or modification may be granted by the Bank with respect to the payment or other provisions of this note from time to time all without notice and without releasing any of the other parties. Receipt of a copy of this note is hereby acknowledged.

\$ 500,000.00LASER VISION CENTERS, INC.

A/C # _____

Due on demand APRIL 17, 1992BY: 

Signature(s)

TITLE: _____

**BOATMEN'S**

ASSIGNMENT OF CERTIFICATE OF DEPOSIT

To: The Boatmen's National Bank of St. Louis (*BHB)

For value received, the undersigned hereby assign(s), transfer(s), pledge(s) and deliver(s) to you all of undersigned's right, title and interest in and to Certificate of Deposit No. _____ in the amount of \$500,000.00 credited on the books of *BHB in my/our name(s), and subsequent Certificates of Deposit in greater or lesser amount issued to effect a renewal of the same, as security and collateral for a loan of even date herewith and for any other indebtedness or liabilities, present or future, of the undersigned, or any of them to you.

Undersigned hereby authorize *BHB upon notice to it by you of default in the payment to you of said loan and the amount thereof, and/or the amount of any other indebtedness or liability owing you, and upon presentation of the above Certificate of Deposit endorsed in the name(s) of undersigned by the Cashier or any Assistant Cashier of your bank (which undersigned hereby appoint as their agent and attorneys-in-fact to do) to cancel said Certificate of Deposit and pay over the proceeds of same to you.

Undersigned hereby authorize you to surrender the above Certificate of Deposit to either of the undersigned upon the payment in full of all my/our indebtedness as above provided.

Executed this 17th day of January, 19 92.Laser Vision Centers, Inc.By: *[Signature]* Title: *[Signature]*To The Boatmen's National Bank of St. Louis

Please acknowledge receipt and acceptance of this notice of assignment by signing, officially, one copy and returning it to us.

The Boatmen's National Bank of St. Louis

By _____

Title _____

Receipt and acceptance of this notice of assignment is hereby acknowledged.

The Boatmen's National Bank of St. Louis

By _____

Title _____

Date _____

The official signature of _____ below shall constitute a release of the above assignment.

By _____

Title _____

Date _____



BORROWING AUTHORIZATION

SCHEDULE C OF RESOLUTION

_CWE-Lindell

ORDER NUMBER:

T-03 DWS

ACCOUNTING CHIEF

Commercial Loan

ACCOUNT NUMBER

I certify that the following person(s) whose genuine signature(s) appear next to their name are officers / employees / agents / trustees of Laser Vision Centers, Inc., duly qualified and acting as such;

[illegible]

Please indicate below in what manner the designated persons are to sign (singly, any two, jointly, etc.): ¹

In witness whereof, I have heretofore subscribed my name and affixed the seal (if any) of said Corporation
this 17th day of January, A.D., 19 92.

SEAL

Securities, Partners, Sales Promotion

IMPORTANT:
Imprint of
Seal Here
(if any)

**BOATMEN'S****CORPORATE RESOLUTION**

CWE-Lindell

OFFICE NUMBER

T-03 DWS

ACCOUNT OFFICER

Commercial Loan

ACCOUNT NUMBER

Name of Corporation: Laser Vision Centers, Inc.☐ Not-for-Profit Corporation

I hereby certify to The Boatmen's National Bank of St. Louis (hereinafter called "Boatmen's") that I am the Secretary / Assistant Secretary of the above named Corporation and the keeper of the records and corporate seal (if any) and that the following is a true and correct copy of the resolutions adopted by unanimous consent of the Board of Directors of said Corporation, on _____, 19____, and that the following described resolutions checked below are now in full force and effect.

(CHECK APPROPRIATE BOXES)

☐ **DEPOSITORY AND WITHDRAWAL AUTHORIZATION** (If checked, please complete, date, sign, and seal Schedule A, attached hereto.)

Be it Resolved, that Boatmen's is designated a depository in which the funds of this Corporation may be deposited and/or withdrawn by any of the persons listed on Schedule A in the manner so designated. Each person as designated on Schedule A is authorized to indorse for collection, deposit, or negotiation any and all checks, drafts, notes, bills of exchange, certificates of deposit, and orders for the payment or transfer of money, either belonging to or coming into the possession of this Corporation. Indorsements "for deposit" may be written or stamped. Each person as designated on Schedule A is authorized to sign any and all checks, drafts, and orders, drawn against any accounts of this Corporation (including savings accounts) with Boatmen's. Boatmen's is authorized to honor and pay all checks, drafts, and orders when so signed or indorsed, including those drawn or indorsed to the individual order of any such person listed on Schedule A.

☐ **SIGNING AUTHORIZATION** (If checked, please complete, date, sign, and seal Schedule B, attached hereto.)

Be it Resolved, that any of the persons listed on Schedule B, in the manner so designated, is authorized to sign and implement for and in the name and on behalf of this Corporation, as they, or any of them may see fit, the terms of all agreements, instruments, drafts, certificates, or other documents relating to any depository accounts or other business of the Corporation including, but not limited to:

- ☐ Payroll Agreement
- ☐ Repurchase Agreement
- ☐ Night Depository Agreement
- ☐ Funds Transfer Agreement

- ☐ Safe Deposit Authorization
- ☐ Other _____

☒ **BORROWING AUTHORIZATION** (If checked, please complete, date, sign, and seal Schedule C, attached hereto.)

Be it Resolved, that any of the persons listed on Schedule C, in the manner so designated, is authorized, on behalf of this Corporation: (i) to borrow money, guarantee loans, or obtain credit from Boatmen's from time to time, in any amount, for any length of time, upon any terms, and with any security as they or any of them may see fit; and (ii) to execute and deliver notes, drafts, acceptances, guaranties, or other credit instruments or agreements in form acceptable to Boatmen's and (iii) to pledge, assign, and/or deliver as security, stocks, bonds, bills, and accounts receivable, security agreements, mortgages, deeds of trust, bills of lading, insurance policies, certificates, and any other property of this Corporation, with full power to indorse or assign in the name of this Corporation and to execute and deliver any and all documents required by Boatmen's to implement the authority conferred by this Resolution.



THE BOATMEN'S
NATIONAL BANK
OF ST. LOUIS

COLLATERAL SECURITY AGREEMENT

St. Louis, MO, January 17, 1992

1992

To secure payment of the note dated January 17, 1992 and all renewals, and extensions thereof (the "Note"), I assign, pledge, and deliver to The Boatmen's National Bank of St. Louis ("Boatmen's") and give Boatmen's a security interest under the Missouri Uniform Commercial Code in the following property and all the products thereof and accessories and additions thereto (the "Collateral") \$500,000.00 Certificate of Deposits issued by The Boatmen's National Bank of St. Louis and all renewals and replacements thereof.

I also assign to Boatmen's, and give Boatmen's a security interest under the Missouri Uniform Commercial Code in, all interest, dividend, or other income, and all proceeds, from the Collateral. I warrant that I am the owner of all the Collateral (excluding items which are given as part of the Collateral with written consent of the owner listed with Boatmen's), that the Collateral is free of any lien, encumbrance, or security interest, and that I will defend the Collateral against the claims and demands of all persons, whenever made.

I agree as follows:

1. If, in Boatmen's reasonable opinion, the Collateral becomes insufficient to secure payment of the Note, Boatmen's may require me to assign, pledge, and deliver to Boatmen's, and to give Boatmen's a security interest under the Missouri Uniform Commercial Code in, additional property as part of the Collateral within 24 hours. The additional property must be satisfactory to Boatmen's.
2. I will keep the tangible Collateral of any insured against damage for its full insurable value. If such Collateral includes a motor vehicle, I will keep fire, theft, or comprehensive and collision insurance satisfactory to Boatmen's. Each insurance policy will state that the proceeds are payable to Boatmen's as its interest appears. Boatmen's may use the proceeds to reduce the outstanding balance on the Note. If I do not keep such Collateral insured as required, Boatmen's may obtain the insurance at my expense. Any sum paid by Boatmen's for this insurance may be added to the outstanding balance of the Note and will bear interest at the same rate provided in the Note. If any insurance policy covering any of such Collateral is canceled, Boatmen's may collect any return premiums and use them to reduce the outstanding balance of the Note.
3. I will keep tangible Collateral of any in good repair. I will also pay all taxes assessed on the Collateral. If I do not do these things, Boatmen's may do so and may add all its costs for doing so to the outstanding balance of the Note, which will bear interest at the same rate provided in the Note.
4. I will not allow the tangible Collateral to become a part of or affixed to any real or personal property without first making arrangements satisfactory to Boatmen's to protect its security interest.
5. I will be in default if any of the following events occur:
 - A. I fail to make any payment of principal or interest required by the Note in full when it becomes due.
 - B. I fail to pay any other obligation of mine to Boatmen's in full when it becomes due.
 - C. I fail to give additional property as part of the Collateral within 24 hours after it is requested by Boatmen's.
 - D. I fail to pay any obligation to any person or entity other than Boatmen's in full when it becomes due.
 - E. I or any other person who has signed the Note as maker, surety, endorser, or guarantor dies, or any corporation which has signed the Note in any capacity is dissolved.
 - F. A lien, encumbrance, or security interest other than in favor of Boatmen's is imposed on the Collateral.
 - G. I dispose or attempt to dispose of any of the Collateral without Boatmen's prior consent.
 - H. I make an assignment for the benefit of my creditors, I cease to operate my business or I file or have filed against me a petition for relief under the Federal Bankruptcy Code or any other law pertaining to the relief of debtors.
 - I. Any of the Collateral is sold, lost, damaged or destroyed.
 - J. I fail to do anything that I have agreed to do in this agreement.
6. If I am in default, Boatmen's may treat all property of mine in Boatmen's possession as part of the Collateral to secure payment of the Note. Unless prohibited by law, if I am in default Boatmen's may (after compliance with applicable law, but no sooner than as permitted by applicable law) declare the Note to be immediately due and payable in full, and Boatmen's will have and may exercise all the rights of a secured party under the Missouri Uniform Commercial Code against any or all of the Collateral. If Boatmen's so requires, I will assemble the Collateral and make it available to Boatmen's at a place to be designated by Boatmen's which is reasonably convenient to both parties.
7. Boatmen's may hypothecate, or give others a security interest in, the Note and Boatmen's rights in all the property which is part of the Collateral under this Agreement. If any of the property which is part of the Collateral is a security, Boatmen's may transfer the security into its name or the name of its nominee for so long as the security remains part of the Collateral. The corporation which has issued any security which is part of the Collateral has the authority to make the transfer into Boatmen's name or the name of Boatmen's nominee.
8. With Boatmen's consent, I can substitute other property for any property which is part of the Collateral. Any substitution of Collateral by me will not affect Boatmen's rights against any endorser, guarantor, or surety on the Note. Neither will it affect Boatmen's right to collect on the Note. Boatmen's will have the same rights in the property that I substitute as part of the Collateral that it has in the property originally given as Collateral under this Agreement.
9. Boatmen's may assign or transfer the Note and Boatmen's rights under this Agreement, and may deliver all the property which is part of the Collateral and in its possession to the assignee or transferee. All Boatmen's rights under this Agreement are enforceable by its assignees, transferees, and successors.
10. This Agreement will be enforceable against my successors, transferees, assignees, heirs, beneficiaries, and personal representatives.
11. A letter mailed or a telegram sent to me at my address shown by my signature below, whether received by me or not, will be sufficient notice or demand as to any request for which a notice or demand is required. Whenever applicable provisions of the Missouri Uniform Commercial Code require that notice be reasonable, ten (10) days notice will be deemed reasonable.
12. I agree that all property of mine that secures a liability or obligation of mine to Boatmen's also secures all of my other liabilities and obligations to Boatmen's, if any, regardless when the other liabilities and obligations arise and regardless of the nature of those liabilities and obligations.
13. No waiver by Boatmen's of any default will be effective unless it is in writing, and no such waiver will operate as a waiver of any other default or of the same default at a future time.
14. This agreement shall be governed by and construed under the laws of the State of Missouri, including the version of the Uniform Commercial Code adopted in Missouri.

Address: 2643 Lindell Blvd., Suite 300

St. Louis, Mo. 63108

Laser Vision Centers, Inc.

By: [Signature]

Comptroller

Title: [Signature]

EXHIBIT 3

FEE AGREEMENT BETWEEN THE COMPANY AND CHESTER FINANCIAL INC.
DATED DECEMBER 12, 1991

MAY & BERNE

ATTORNEYS AT LAW

SUITE 2102

7777 RONIHOMME AVENUE

ST. LOUIS (CLAYTON) MISSOURI 63105

TELEPHONE (314) 721-0331

FACSIMILE (314) 721-6740

ROBERT W. MAY
RICHARD R. BERNE

January 24, 1992

*LICENSED IN
MISSOURI & ILLINOIS

Mr. John J. Klobnak
President
Laser Vision Centers, Inc.
3663 Lindell Boulevard
Suite 380
St. Louis, Missouri 63108

RE: Chester Financial Incorporated Agreement

Dear Jack:

Enclosed please find copies of Directors minutes signed by Drs. Lewin and Blumenthal, approving the above-referenced contract. Also enclosed please find a resolution to be signed by you on behalf of the corporation.

You should execute these minutes and fax a copy of same to Bill Levy. In addition, you should also execute the contract and fax a copy of that to Bill, as well. I am requesting that you forward copies of those signed documents to me to be included in the corporate minute book.

If you have any questions in regard to this matter, please call. As always, thank you for allowing me to be of service to you.

Sincerely,

MAY & BERNE

Robert W. May

RWM/vlf
Enclosure

cc: Mr. William Levy w/encl. (via fax)

LASER VISION CENTERS, INC.
UNANIMOUS CONSENT OF THE DIRECTORS
TO ACTION WITHOUT A MEETING
JANUARY 25, 1992

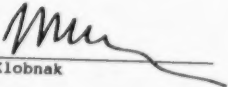
Pursuant to the Corporation laws of the State of Delaware, the undersigned, being all the Directors of LASER VISION CENTERS, INC. ("the Company"), without a meeting, hereby approve and adopt by unanimous written consent the following resolutions, such approval and adoption by unanimous written consent to be effective as of January 25, 1992:

The members of the Board of Directors have discussed financing of the agreement between the Company and Chester Financial Incorporated, and hereby adopt the following resolution in regard thereto:

RESOLVED, that the Fee Agreement with Chester Financial Incorporated, a copy of which is attached hereto, made a part hereof and marked as Exhibit A, is hereby approved, ratified and adopted.

RESOLVED FURTHER, the President and any other appropriate officers, consultants and attorneys of the Company are hereby authorized to enter into and perform the agreement in accordance with the terms of Exhibit A.

Dated this 25th day of January, 1992.



John J. Klobnak

W. Howard Lewin, M.D.

Mark Blumenthal, M.D.

Secretary

LASER VISION CENTERS, INC.
UNANIMOUS CONSENT OF THE DIRECTORS
TO ACTION WITHOUT A MEETING
JANUARY 25, 1992

Pursuant to the Corporation laws of the State of Delaware, the undersigned, being all the Directors of LASER VISION CENTERS, INC. ("the Company"), without a meeting, hereby approve and adopt by unanimous written consent the following resolutions, such approval and adoption by unanimous written consent to be effective as of January 25, 1992:

The members of the Board of Directors have discussed financing of the agreement between the Company and Chester Financial Incorporated, and hereby adopt the following resolution in regard thereto:

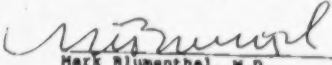
RESOLVED, that the Fee Agreement with Chester Financial Incorporated, a copy of which is attached hereto, made a part hereof and marked as Exhibit A, is hereby approved, ratified and adopted.

RESOLVED FURTHER, the President and any other appropriate officers, consultants and attorneys of the Company are hereby authorized to enter into and perform the agreement in accordance with the terms of Exhibit A.

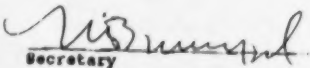
Dated this 25th day of January, 1992.

John J. Klobnak

W. Howard Lewin, M.D.



Mark Blumenthal, M.D.



Secretary

LASER VISION CENTERS, INC.
UNANIMOUS CONSENT OF THE DIRECTORS
TO ACTION WITHOUT A MEETING
JANUARY 25, 1992

Pursuant to the Corporation laws of the State of Delaware, the undersigned, being all the Directors of LASER VISION CENTERS, INC. ("the Company"), without a meeting, hereby approve and adopt by unanimous written consent the following resolutions, such approval and adoption by unanimous written consent to be effective as of January 25, 1992:

The members of the Board of Directors have discussed financing of the agreement between the Company and Chester Financial Incorporated, and hereby adopt the following resolution in regard thereto:

RESOLVED, that the Fee Agreement with Chester Financial Incorporated, a copy of which is attached hereto, made a part hereof and marked as Exhibit A, is hereby approved, ratified and adopted.

RESOLVED FURTHER, the President and any other appropriate officers, consultants and attorneys of the Company are hereby authorized to enter into and perform the agreement in accordance with the terms of Exhibit A.

Dated this 25th day of January, 1992.

John J. Klobnak

W. Howard Lewin
W. Howard Lewin, M.D.

Mark Blumenthal, M.D.

Secretary

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Q 35512
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1991

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 33-3201-D

PROCESSED BY
18-18-I
MAY 28 1992

LEVERAGE GROUP, INC.

(Exact name of registrant as specified in its

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Colorado

84-0991072

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

6555 NW 9th Ave.
Ft. Lauderdale, FL

33309

(Address of principal executive officers

(Zip Code)

(305) 772-2081

(Registrant's telephone number, including areas code)

7110 North University Drive, Tamarac, Florida 33321

(Former name, former address and former fiscal year, if change
since last report)

Indicate by check mark whether the registrant (1) has filed all
reports required to be filed by Section 13 or 15 (d) of the
Securities Exchange Act of 1934 during the preceding 12 months, and
(2) has been subject to such filing requirements for the past 90
days.

YES

NO X

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date.

Class of Common Stock

Outstanding at
December 31, 1991

No par value

347,205,639

LEVERAGE GROUP, INC. & SUBSIDIARIES

FORM 10-Q

QUARTER ENDED DECEMBER 31, 1991

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General business information

Leverage Group, Inc. ("Registrant" or "Leverage") was under the laws of the State of Colorado on July 3, 1985. Leverage was incorporated to evaluate the structure and complete a merger or acquisition with a private company as well as the acquisition and development of real property. In May 1986, the Registrant made an initial public offering of its common stock, which closed in September 1986. Pursuant to that offering, Leverage raised \$200,000.

National Health Guard, Inc. ("NHC" or "Health Guard") is a wholly-owned subsidiary of Leverage. NHC was incorporated under the laws of the State of Florida in April 1987. On January 25, 1988, Leverage acquired all of the outstanding shares of Health Guard, then known as Blood Shield, Inc., in exchange for stock of Leverage. As a result of that transaction and his purchase of additional shares from certain of the principals of the Registrant, Mr. Margolin, Chairman of the Board and Vice President of Health Guard, became the owner of approximately 81% of Leverage's then issued and outstanding shares.

Health Guard was a development stage enterprise through fiscal year ending June 30, 1989, as defined by the financial Accounting Standards Board ("FASB") Statement No. 7, Accounting and Reporting by Development Stage Enterprises. The Registrant began active operations during the fiscal year ended June 30, 1990, specializing presently in autologous blood banking (the use of one's own blood), and production of blood components (fresh frozen plasma, recovered plasma, random platelets) for resale to the medical community. Health Guard also provides complete blood work-up services in its own clinical laboratory facility as well as semen storage.

G.I. Corporation ("GIC") is a wholly-owned, inactive subsidiary of Health Guard, whose primary business is the development of medical and pharmaceutical products. It was incorporated on January 20, 1987, in the State of Florida. GIC was also a development stage enterprise as defined above. GIC will devote substantially all of its efforts to establishing a new business whose planned principal operations have not commenced and, accordingly, minimal revenues have been derived therefrom.

MARKET FOR THE REGISTRANT'S COMMON STOCK and RELATED STOCKHOLDER MATTERS

The principal market for the Registrant's common stock is not on any exchange. The common stock of Leverage is traded over-the-counter.

Leverage is subject to the informational requirements of the Securities and Exchange Act of 1934 ("the Act") and, accordingly, is required to file reports and other information with the Securities and Exchange Commission. The Registrant has not been in compliance with such filing requirements, having not filed reports since March 1989. The Registrant currently is in the process of bringing itself into compliance with such filing requirements. However, there is no assurance that the Securities and Exchange Commission will not sanction or otherwise penalize the Registrant and/or its officers and directors.

Currently, there is no trading market made in the Registrant's stock. There can be no assurance that such trading market will be established or if established that it will be active enough to absorb the sale of a large amount of securities or that prices of the securities will be meaningful or desirable.

The Registrant has not paid dividends on its Common Stock since inception, nor does it plan to pay dividends in the foreseeable future. It is the Registrant's intent that any earnings, if and when realized, will be retained to finance future growth.

SELECTED CONSOLIDATED FINANCIAL DATA

The Registrant was a development stage enterprise, as defined by the Accounting Standards Board ("FASB") Statement No. 7, Accounting and Reporting by Development Stage Enterprises, until fiscal year end June 30, 1989. Leverage has not, from inception through June 30, 1990, generated any significant revenues, although revenues began increasing in June 1990, and as a result, the Registrant was no longer considered in the development stage.

The following table contains selected consolidated financial data the the date of inception (July 3, 1985) to June 30, 1988 and for each of the fiscal years ended June 30, 1991, 1990 and 1989 and for the six months ended December 31, 1991 (unaudited):

	Six months ended December 31, 1991 (unaudited)	JUNE 30		July 3, 1985 (inception) to	
		1991	1990	1989	1988
Fee income	\$ 264,976	\$ 379,615	\$ 39,837	\$ 14,489	\$ 8,002
Net loss	104,172	190,450	219,430	504,323	270,447
	(*)	(*)	(*)	(*)	(*)
Net loss per share					
Total assets	156,965	209,383	95,613	75,335	107,213
Long term obligations	8,000	8,000	11,230		
Net capital deficiency	495,467	419,795	444,815	440,395	63,870
Shares outstanding	347,205,639	328,071,676	794,116,077	87,766,644	152,500,000

(*) less than \$0.01 loss per share

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Leverage is a publicly-held Colorado holding corporation. The Registrant began active operations during the fiscal year ended June 30, 1990, specializing presently in autologous blood banking (the use of one's own blood). National Health Guard also provides complete blood work-up services in its own clinical laboratory facility, as well as semen and ova storage.

National Health Guard, as the Registrant's principal operating entity, generates its income by providing these blood, semen and ova storage, laboratory and clinical services on a fee basis. Through June 1990, the Registrant has had only nominal revenues from its activities in storing blood, providing blood processing activities and its blood related laboratory activities. National Health Guard began generating significantly increased revenues during its June 30, 1991 fiscal year. However, there can be no assurances that its planned activities will result in profitable operations.

Capital Resources and Liquidity

The Registrant's ability to continue in operations is dependent upon its ability to obtain additional financing and/or obtain alternative capital which the Registrant requires to attain sufficient profitable operations and to meet its obligations. To this end, in December 1989, and as amended in December 1990, and again in March 1991, the Registrant had issued Private Placement Memorandums to obtain the financing that Management believes necessary to complement its business plan. Management is contemplating another Private Placement in the very near future, which will fund capital for purchase of equipment and working capital, thus enabling the Company to greatly expand operations into other major areas of the business. The Registrant must receive sufficient funds to accomplish its intended objective or to remain in operation for a sustained period of time. It is also possible that the Registrant will require additional financing beyond that covered in the Private Placement Offering. Management can provide no assurance that such additional financing can be obtained or even if available, that such additional capital will be available on terms acceptable to Leverage. To the extent that any such additional funding requirements cannot be fulfilled, the ability of Management to complement its business plan will be adversely affected.

Future

The goal of National Health Guard is to provide clients with properly collected, specially processed blood for autologous transfusion (transfusion of one's own blood).

The method of achieving this goal has already been determined by successfully opening separate drawing facilities outside the main laboratory. These drawing facilities will be formed through restrictive partnership programs soon to be announced. The Company is also presently negotiating an international program providing for distributorships of both National Health Guard products and knowledge and transfer agreements.

National Health Guard is currently pursuing various other avenues to establish itself in its primary business. For the succeeding fiscal year, the Registrant expects to manufacture and distribute the proprietary liquid nitrogen freezer for blood storage. The Company is seeking to establish a sales and distribution channel for the product world-wide. Management believes that the freezer sales will become a highly profitable business for the Company.

LEVERAGE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1991

ASSETS

CURRENT ASSETS	\$ 237
Cash	65,716
Accounts Receivable, Net (Note 2)	16,746
Inventory	<u>15,100</u>
Due from Officers and Employees	97,799
TOTAL CURRENT ASSETS	
 FURNITURE, FIXTURES AND EQUIPMENT	 79,634
Medical Equipment	<u>46,736</u>
Furniture and Fixtures	126,370
Accumulated Depreciation	(<u>76,935</u>)
TOTAL FURNITURE, FIXTURES AND EQUIPMENT	<u>50,435</u>
 OTHER ASSETS	 5,921
Patent	<u>2,810</u>
Other	8,731
TOTAL OTHER ASSETS	
 TOTAL ASSETS	 \$ 156,965 =====

See accompanying notes to Consolidated Financial Statements

LEVERAGE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1991

LIABILITIES AND NET CAPITAL DEFICIENCIES

CURRENT LIABILITIES	
Current Portion of Notes Payable (Note 3)	\$ 35,190
Accounts Payable and Accrued Expenses	206,227
Note Payable - Officer (Note 4)	45,450
Loan Payable (Note 5)	25,120
Loans Payable - Officers	<u>323,445</u>
TOTAL CURRENT LIABILITIES	<u>635,432</u>
NOTES PAYABLE (NOTE 3)	<u>8,000</u>
COMMITMENTS AND CONTINGENCIES (NOTE 7)	
NET CAPITAL DEFICIENCY	
Common Stock, no par value, 500,000,000	
Shares Authorized, 347,205,639 Shares	831,050
Issued and Outstanding	11,537
Paid-in Capital	<u>(1,329,054)</u>
Accumulated Deficit	<u>(486,467)</u>
TOTAL NET CAPITAL DEFICIENCIES	
TOTAL LIABILITIES AND NET CAPITAL DEFICIENCIES	\$ 156,965
	=====

See accompanying notes to Consolidated Financial Statements

LEVERAGE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
THREE AND SIX MONTHS ENDED DECEMBER 31, 1991

	<u>Three Months</u>	<u>Six Months</u>
FEE INCOME (Note 8)	<u>\$130,219</u>	<u>\$264,978</u>
OPERATING EXPENSES		
Salaries and Commission	76,616	144,164
Medical Supplies	47,582	74,330
Other Operating Expenses	11,400	20,760
ADMINISTRATIVE EXPENSES		
Payroll Expenses	38,700	70,362
Office and Occupancy Expenses	38,523	58,210
Other Administrative Expenses	<u>16,099</u>	<u>32,854</u>
OPERATING (LOSS)	(88,791)	(135,702)
OTHER ITEMS		
Interest Expense	<u>5,043</u>	<u>(8,470)</u>
NET LOSS	(\$ 93,744) =====	(\$144,172) =====

See accompanying notes to Consolidated Financial Statements

LEVERAGE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES
IN NET CAPITAL DEFICIENCY

SIX MONTHS ENDED DECEMBER 31, 1991

	<u>COMMON STOCK</u>		<u>PAID-IN</u>	<u>ACCUMULATED</u>
	<u>SHARES</u>	<u>AMOUNT</u>	<u>CAPITAL</u>	<u>DEFICIT</u>
Balance as of June 30, 1991	328,071,676	\$ 753,550	\$ 11,537	\$(1,184,882)
Issuance of Common Stock at \$.0065, as part of a Private Placement dated 12/17/89 as amended	383,963	2,500		
Issuance of Common Stock at \$.004 as part of a Private Placement dated 12/17/89 as amended	18,750,00	75,000		
Net Loss for the Six Months Ended December 31, 1991				(144,172)
Balance as of December 31, 1991	347,205,637	\$ 831,050	\$ 11,537	\$(1,329,054)
	=====	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

LEVERAGE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 1991

CASH FLOWS FROM OPERATING ACTIVITIES:

Net (Loss)	\$(144,172)
Adjustments to Reconcile Net (Loss) to Net Cash Used By Operating Activities:	
Depreciation and Amortization	8,825
(Increase) Decrease In:	
Accounts Receivable, Net	38,390
Inventory	10,491
Due from Officers and Employees	(15,100)
Other Assets	(523)
(Increase) In Accounts Payable and Accrued Expenses	(<u>36,165</u>)

NET CASH USED BY OPERATING ACTIVITIES

(138,254)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Furniture, Fixtures and Equipment

(5,277)

NET CASH USED BY INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of Common Stock	77,500
Proceeds of Loans Payable	84,700
Principal Repayments of Notes Payable	(30,783)
Principal Payment of Note Payable - Officer	(<u>3,500</u>)

NET CASH PROVIDED BY FINANCING ACTIVITIES

127,917

NET INCREASE/DECREASE IN CASH

(15,614)

CASH - BEGINNING

15,851

CASH - ENDING

237

=====

See accompanying notes to Consolidated Financial Statements

LEVERAGE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been presented on the basis of the continuation of Leverage Group, Inc. and subsidiaries as a going concern and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Organization

Leverage Group, Inc. (the Company) is a publicly-held Colorado corporation. The Company does business mainly through its wholly-owned subsidiary, National Health Guard, Inc. (previously Blood Shield, Inc.), whose primary business is the autologous storage of blood and the operation of a clinical laboratory.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Inventory

Inventory consists of supplies and is valued at the lower cost or market. Cost is determined on the first-in first-out method.

LEVERAGE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at acquisition cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Gains or losses on disposal are included in the results of operations.

Depreciation

Depreciation is computed by accelerated methods using various rates based generally on the estimated useful lives of the assets. The estimated useful lives are summarized as follows:

furniture and fixtures	5 to 7 years
Medical equipment	7 years

Statement of Cash Flows

For purposes of this statement, the Company considers all liquid investments with a maturity of three months or less to be cash equivalents.

Common Stock

Shares of common stock issued for other than cash have been assigned amounts equivalent to the fair value of the service or asset received in exchange.

Loss per share

Net loss per share have been computed on the basis of weighted average common shares outstanding. Fully diluted loss per share are not presented because the warrants are anti-dilutive.

NOTE 2. ACCOUNTS RECEIVABLE

Approximately 90% of the Company's receivables are due from Medicare and private insurers. Accounts receivable are stated net of an allowance for doubtful accounts of \$34,000.

LEVERAGE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991

NOTE 3. NOTES PAYABLE

Notes payable as of December 31, 1991 consists of the following:

Bank credit line, with interest at 10%, collateralized by a Certificate of Deposit owned by an officer/shareholder	\$27,360
Note payable, \$339 monthly, including principal and interest at 10%, final payment due in 1994	11,250
Note payable, \$1,000 monthly, including principal and interest at 10%, due September 4, 1991	<u>4,280</u>
	43,190
Less: Current Portion	<u>35,190</u>
	\$ 8,000
	=====
Fiscal year ending:	
June 30, 1992	\$35,190
June 30, 1993	5,000
June 30, 1994	<u>4,000</u>
	\$43,190
	=====

LEVERAGE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991

NOTE 4. NOTE PAYABLE - OFFICER

Note payable-officer is unsecured and bears interest at 2% over the bank prime rate. Monthly payments of \$500, plus interest are due through November 1992, with the remaining principal and interest due December 2, 1992.

NOTE 5. LOANS PAYABLE - OFFICERS

Loans payable-officers and employees are unsecured and bear interest at the annual rate of 10% and are due on demand.

NOTE 6. COMMON STOCK

Some of the issued and outstanding common shares of the Company are "restricted securities" under Rule 144 of the Securities Act of 1933. These shares must generally be held for a minimum of two years prior to resale. However, under certain circumstances, they may be sold before the minimum holding period.

The Company has 20,000,000 redeemable common stock purchase warrants outstanding. Each warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$0.04 per share. Each warrant may be called (redeemed) by the Company at any time, after thirty (30) days written or published notice, at a redemption price of \$0.0001 per redeemable warrant, subject to the right of holders of the redeemable warrants to exercise their purchase rights between the date of any notice of redemption up to and including the redemption date given to the Company. The redeemable warrants expire on December 31, 1992.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Facility lease

The Company leases its office and blood storage facilities under a Sixty-nine (69) month operating lease, expiring December 1, 1995. The lease provides for increases in minimum rental payments based upon increases in the Consumer Price Index. In addition, the lease provides for payments for maintenance and taxes.

LEVERAGE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991

NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

Facility lease (Continued)

The following is a schedule, by year, of future minimum payment due under this non-cancelable lease at June 30, 1991:

1992	\$ 25,670
1993	25,670
1994	25,670
1995	<u>19,253</u>
Total	\$ 96,263 =====

LEVERAGE GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991

NOTE 8. COMPARATIVE INFORMATION

The comparative information for fiscal year 1990 has not been presented in the Statement of Operations and Cash Flows because it is not readily available and cost prohibitive to compile. It would not provide meaningful information because there was no meaningful revenue during the period.

NOTE 9. LEGAL PROCEEDINGS

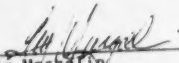
On October 14, 1991, Steven Fine resigned as an officer and director of the Company. This resignation came after two other officers and directors of the Company filed a derivative action against Mr. Fine. Subsequently, Mr. Fine filed suit against the Company and its directors to compel the Company to issue stock pursuant to an alleged agreement. In addition, the suit seeks an unspecified amount of damages, including punitive damages for fraud. The Company is vigorously defending the action and believes that Mr. Fine is not entitled to the relief requested. However, if the court were to rule in Mr. Fine's favor, said result could have an adverse effect on the Company and would have a dilution effect on the present shareholders.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LEVERAGE GROUP, INC.

Dated: 5/10/92

By: 

Ely Margulies
Chairman of the Board

92871843

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Page 1 of 1 24

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FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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92-2243

For the quarterly period ended February 1, 1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

PROCESSED BY

203-22-Z

For the transition period from _____ to _____

MAR 10 1992

Commission file number 33-6192

Microfilmed by

Q-Data Corp. - St. Petersburg, FL

R. H. Macy & Co., Inc. *New*

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3324058

(I.R.S. Employer
Identification No.)

151 West 34th Street, New York, New York

(Address of principal executive offices)

10001

(Zip Code)

(212) 560-4249

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ X

NO ☐

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES ☐

NO ☐

Not Applicable ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At February 29, 1992, there were 1,616,700 shares of the issuer's common stock outstanding.

PAGE 2 of 199

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

R. H. MACY & CO., INC.
(DEBTOR-IN-POSSESSION)

AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share)

	For the Quarter Ended		For the Six Months Ended	
	February 1, 1992 (13 weeks)	February 2, 1991 (14 weeks)	February 1, 1992 (26 weeks)	February 2, 1991 (27 weeks)
Net retail sales (including licensed departments) (Note 11)	\$ 2,055,875	\$ 2,196,235	\$ 3,657,146	\$ 3,742,335
Leas:				
Cost of goods sold, including occupancy and buying costs	1,680,002	1,518,152	2,756,074	2,552,758
Selling, general and administrative expenses	590,748	495,580	1,113,240	925,769
Unusual items (Note 8)	284,926	-	314,926	-
Earnings/(loss) from operations before interest expense and reorganization expenses	(499,801)	182,503	(527,094)	263,808
Interest expense - net (Notes 2 and 4)	68,913	178,295	196,976	358,829
Earnings/(loss) before reorganization expenses	(568,714)	4,208	(724,070)	(95,021)
Reorganization expenses (Note 3)	102,861	-	102,861	-
Earnings/(loss) before income taxes/(benefit) and extraordinary gain	(671,575)	4,208	(826,931)	(95,021)
Income taxes/(benefit) (Note 9)	-	11,504	-	(21,022)
Net loss before extraordinary gain	(671,575)	(7,296)	(826,931)	(73,999)
Extraordinary gain (net of tax) (Note 10)	-	85,337	-	95,502
Net earnings/(loss)	\$ (671,575)	\$ 78,041	\$ (826,931)	\$ 21,503
Net earnings/(loss) per share of common stock (Note 12):				
Net loss before extraordinary gain	\$ (417.57)	\$ (9.12)	\$ (518.42)	\$ (53.87)
Extraordinary gain, net	-	52.22	-	58.45
Net earnings/(loss) per share of common stock	\$ (417.57)	\$ 43.10	\$ (518.42)	\$ 4.58
Fully diluted net earnings/(loss) per share:				
Net loss before extraordinary gain		\$ (0.66)		\$ (7.25)
Extraordinary gain, net		7.67		9.36
Fully diluted net earnings/(loss) per share		\$ 7.01		\$ 2.11

See notes to condensed consolidated financial statements.

Page 1 of 1

R. H. MACY & CO., INC.
(DEBTOR-IN-POSSESSION)

AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	For the Six Months Ended	
	February 1, 1992	February 2, 1991
	(26 weeks)	(27 weeks)
OPERATING ACTIVITIES:		
Net loss before extraordinary gain	\$ (826,931)	\$ (73,999)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Items not requiring the outlay of cash:		
Depreciation and amortization	142,722	143,045
Non-cash interest	2,178	66,431
Reorganization expenses	92,920	-
Write-off of excess of cost over fair value of net assets acquired	241,452	-
Other	3,474	21,682
Decrease in working capital (excluding cash and cash equivalents and current portion of debt instruments)	656,646	112,731
Changes in assets and liabilities:		
Decrease in working capital due to reorganization activities	(795,742)	-
Decrease in other liabilities due to reorganization activities	(69,669)	-
Income tax expense - extraordinary gain	-	(69,157)
Other	9,869	(1,973)
Net cash provided by (used for) operating activities	(543,081)	198,760
INVESTING ACTIVITIES:		
Additions to property and equipment	(137,237)	(87,228)
Net cash used for investing activities	(137,237)	(87,228)
FINANCING ACTIVITIES:		
Net reduction in long-term debt and obligations under capitalized leases	(36,752)	(282,235)
Proceeds from issuance of preferred stock	-	162,180
Increase (decrease) in short-term borrowings	(127,701)	18,598
Deferral of debt due to reorganization activities	(3,595,636)	-
Decrease in preferred stock due to reorganization activities	(637,315)	-
Other	(308)	(924)
Net cash used for financing activities	(4,397,712)	(102,381)
CASH FLOW EFFECT OF REORGANIZATION ACTIVITIES:		
Increase in obligations subject to settlement under reorganization proceedings	5,098,362	-
Cost of debtor-in-possession financing	(15,000)	-
Net cash flow effect of reorganization activities	5,083,362	-
INCREASE IN CASH AND CASH EQUIVALENTS	5,332	9,151
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	51,950	53,286
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 57,282	\$ 62,437

Supplemental information

Amounts in this statement of cash flows are presented on a cash basis and may differ from those in other sections of this report.

Interest amounts paid (excluding interest expense capitalized during construction) for the six months ended February 1, 1992 and February 2, 1991 were \$194,607,000 and \$301,069,000. Income tax refunds net of taxes were \$2,593,000 in the six months ended February 1, 1992 and income taxes paid net of refunds were \$27,804,000 in the six months ended February 2, 1991.

Outstanding convertible preferred stock (redeemable) increased through related charges to the deficiency in net assets by \$20,316,000 and \$14,024,000 in the six months ended February 1, 1992 and February 2, 1991.

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R. H. MACY & CO., INC.
(DEBTOR-IN-POSSESSION)

AND CONSOLIDATED SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollars in thousands)

<u>ASSETS</u>	February 1, 1992	February 2, 1991	August 3, 1991
	(Unaudited)		
CURRENT ASSETS:			
Cash and cash equivalents	\$ 57,282	\$ 62,437	\$ 51,950
Restricted cash	-	71,324	-
Customer accounts receivable - net (Note 4)	-	1,532,079	-
Merchandise inventories (Note 5)	1,011,177	1,293,798	1,452,746
Other current assets	122,204	156,630	197,964
TOTAL CURRENT ASSETS	<u>1,190,663</u>	<u>3,116,268</u>	<u>1,702,660</u>
EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED (Note 8)	-	248,248	244,850
OTHER ASSETS	203,796	220,219	184,822
PROPERTY AND EQUIPMENT (including capitalized leases), at cost, less accumulated depreciation of \$904,373, \$768,647 and \$835,726 (Note 3)	2,626,865	2,691,188	2,679,283
	<u>\$ 4,021,324</u>	<u>\$ 6,275,923</u>	<u>\$ 4,811,615</u>
<u>LIABILITIES AND DEFICIENCY IN NET ASSETS</u>			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 2, 4 and 6)	\$ -	\$ 702,846	\$ 242,810
Accounts payable and accrued liabilities (Note 2)	350,069	868,914	1,006,494
Income taxes (Note 9)	-	81,180	-
Current portion of long-term debt and obligations under capitalized leases (Notes 2 and 4)	-	479,820	81,225
TOTAL CURRENT LIABILITIES	<u>350,069</u>	<u>2,132,760</u>	<u>1,330,529</u>
OBLIGATIONS SUBJECT TO SETTLEMENT UNDER REORGANIZATION PROCEEDINGS (Note 2)	5,098,362	-	-
DEFERRED CREDITS AND LONG-TERM LIABILITIES (Note 2)	120,304	240,635	247,630
LONG-TERM DEBT (including obligations under capitalized leases) (Notes 2 and 4)	-	3,895,501	3,374,004
CONVERTIBLE PREFERRED STOCK (REDEEMABLE) (Note 2)	-	565,141	609,111
DEFICIENCY IN NET ASSETS:			
Common stock	1,750	1,750	1,750
Deficit	(1,596,828)	(558,706)	(750,251)
Less:			
Treasury shares, at cost	(1,333)	(1,158)	(1,158)
DEFICIENCY IN NET ASSETS	<u>(1,596,411)</u>	<u>(558,114)</u>	<u>(749,659)</u>
	<u>\$ 4,021,324</u>	<u>\$ 6,275,923</u>	<u>\$ 4,811,615</u>

See notes to condensed consolidated financial statements.

R. H. MACY & CO., INC. (DEBTOR-IN-POSSESSION)AND CONSOLIDATED SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTSQUARTERS AND SIX MONTHS ENDED FEBRUARY 1, 1992 (13 WEEKS AND 26 WEEKS)AND FEBRUARY 2, 1991 (14 WEEKS AND 27 WEEKS)

(Unaudited)

1. The accompanying notes to condensed consolidated financial statements should be read in conjunction with the notes to consolidated financial statements included in the annual report on Form 10-K for the fiscal year ended August 3, 1991 for R.H. Macy & Co., Inc. (the "registrant") and its consolidated subsidiaries (together with the registrant, "Macy") filed with the Securities and Exchange Commission. In the opinion of management, all adjustments necessary for a fair presentation of the results of operations for the interim periods have been included. Because of the seasonal nature of the business, results for interim periods are not necessarily indicative of a full year's operations.

2. On January 27, 1992, the registrant, together with nine of its subsidiaries, filed voluntary petitions for reorganization under chapter 11 ("Chapter 11") title 11 of the United States Code, as amended (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). On January 31, 1992, 78 additional subsidiaries each commenced a Chapter 11 case in the Bankruptcy Court. The registrant and all such subsidiaries that filed a Chapter 11 case in Bankruptcy Court are herein defined collectively as the "Macy Debtors" and are currently operating their respective businesses as debtors-in-possession. Two official creditor committees have been appointed and are expected to participate in the formulation of any plan or plans of reorganization for the Macy Debtors. See Part II, Item 1 ("Legal Proceedings") of this report.

The condensed consolidated financial statements of Macy have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes continuity of operations and the realization of assets and liquidation of liabilities in the ordinary course of business. As a result of the Chapter 11 cases and circumstances relating to this event, including Macy's leveraged debt structure, recurring losses and current economic conditions, such realization of assets and liquidation of liabilities are subject to significant uncertainty. Additionally, the amounts reported on the statement of financial condition could materially change because of a plan of reorganization, since such reported amounts do not give effect to adjustments to the carrying value of the underlying assets or amounts of liabilities that may ultimately result.

Generally, actions to enforce or otherwise effect the repayment of prepetition liabilities are stayed while the Macy Debtors are under the protection of the Bankruptcy Code. These liabilities will be resolved as part of the reorganization proceedings. Additional liabilities subject to similar resolution may arise as a result of claims filed by parties related to the rejection of any executory contracts, including unexpired leases, and from the Bankruptcy Court's determination of allowed claims for contingencies and other disputed amounts.

On January 29, 1992, the Bankruptcy Court entered an interim order approving the debtor-in-possession financing arrangement (the "Post-Petition Credit Agreement") dated as of January 27, 1992, among the registrant, as Borrower, each of the other Macy Debtors as guarantors, Chemical Bank, as administrative agent, and Bankers Trust Company as co-agent, and other financial institutions to become parties thereto, (the "Post-Petition Lenders") that established a working capital facility, (the "Working Capital Facility") in the maximum amount of \$600,000,000. This interim order limited the registrant borrowing thereunder to \$60,000,000; a subsequent order was entered on February 13, 1992 authorizing the registrant to borrow up to the entire \$600,000,000 available under the Working Capital Facility. Borrowings under the Working Capital Facility may be used to fund working capital, inventory purchases, capital expenditures and for other general corporate purposes of the Macy Debtors. The Post-Petition Credit Agreement includes restrictions on capital expenditures and certain other payments, as well as a covenant relating to minimum cash flow.

Under the Post-Petition Credit Agreement, the Post-Petition Lenders agree to make revolving loans to, and to issue letters of credit for the registrant in an amount not exceeding at any time the lesser of the Borrowing Base (as defined in the Post-Petition Credit Agreement) and \$600,000,000. The Working Capital Facility includes a sublimit of \$250,000,000 for standby and documentary letters of credit, of which no more than \$30,000,000 may be utilized for standby letters of credit. Each subsidiary of the registrant that commenced a Chapter 11 case is a guarantor of the registrant's obligations under the Post-Petition Credit Agreement.

The Post-Petition Credit Agreement provides that advances made under the Working Capital Facility will bear interest at a rate of 1.5% percent per annum in excess of Chemical Bank's Alternative Base Rate, ("ABR"), or at the registrant's option, at a rate of 2.5% per annum in excess of the reserve adjusted London Interbank Offered Rate ("LIBOR") for interest periods of one, three, or six months. Interest on ABR loans and three and six month LIBOR loans are payable quarterly in arrears; and interest on one month LIBOR loans are payable monthly in arrears.

Under the Post-Petition Credit Agreement, the registrant pays a commitment fee of 1/2 of 1% per annum on the unused portion of the Working Capital Facility, a letter of credit fee equal to 2% per annum of average outstanding letters of credit and certain other fees. The Post-Petition Credit Agreement expires on the earlier of February 28, 1994 or the substantial consummation of a plan of reorganization which is confirmed pursuant to an order entered by the Bankruptcy Court. Under the Post-Petition Credit Agreement, Post-Petition Lenders were granted a superpriority claim status for all obligations of the Macy Debtors arising under that agreement.

Substantially all of Macy's pre-petition short and long-term debt at February 1, 1992 is in default of the terms of the applicable loan agreements and is subject to settlement under the reorganization process. For financial reporting purposes, these liabilities which are dependent upon the outcome of the Chapter 11 process have been segregated and reclassified as "Obligations Subject to Settlement Under Reorganization Proceedings". Payment of certain pre-petition liabilities that were approved for payment by the Bankruptcy Court or are pending approval have been included in the appropriate liability captions.

The estimated petition date liabilities that are subject to settlement as part of a plan of reorganization are listed below.

	<u>As of the Petition Date</u>
Accounts payable and accrued liabilities	\$ 720,846,000
Accrued interest on long-term debt	74,896,000
Collateralized debt	2,330,253,000
Unsecured debt	1,265,383,000
Convertible Preferred Stock (Redeemable)	637,315,000
Other Liabilities	69,669,000
	<u>\$5,098,362,000</u>

Generally, interest on pre-petition debt does not accrue after the commencement of the Chapter 11 case. If the debts are secured by property with a value that is greater than the amount of the debt, interest may accrue up to the value of the collateral. For financial statement purposes and conservatism only, interest expense on secured debt will continue to be accrued but is subject to settlement. No determination has been made regarding the value of the property interests which secure certain debt and, consequently, whether interest thereon will be paid. Macy has ceased accruing interest expense on its unsecured debt. Contractual interest not recorded on such unsecured debt aggregated \$2,769,000 in the quarter and six months ended February 1, 1992.

Commencing on the Chapter 11 filing date, the registrant ceased accruing dividends on its Convertible Preferred Stock (Redeemable) and has included the Convertible Preferred Stock (Redeemable) and the cumulative accrued but unpaid dividends on such stock in "Obligations Subject to Settlement Under Reorganization Proceedings".

Long-term debt does not include \$5,000,000 of 14-1/2% Senior Subordinated Debentures, \$241,931,000 of 14-1/2% Subordinated Debentures and \$187,769,000 of 16-1/2% Junior Subordinated Discount Debentures purchased in fiscal 1991 by Macy Financial Inc. ("MFI"), a wholly-owned subsidiary of the registrant and also a debtor-in-possession. The capital stock of MFI, as well as such debentures were pledged to the pre-petition banks under the Pre-Petition Bank Credit Agreement.

3. Reorganization expenses in the quarter and six months ended February 1, 1992 primarily relate to (a) the estimated costs associated with the closing of certain stores (\$76,000,000), (b) the write-off of deferred debt expenses associated with unsecured long-term debt (\$16,307,000) and (c) the write-off of Preferred Stock issuance costs (\$8,280,000).

Macy, based on the results of its ongoing store evaluation program, may record additional charges with respect to store closings.

4. On May 10, 1991, Macy Credit Corp. ("Credit") and Macy Receivables Funding Corp. ("Funding Corp."), wholly-owned subsidiaries of the registrant, sold all of the consumer credit card accounts originated by its department store subsidiaries (the "Operating Companies"), and all receivables existing under such accounts, to General Electric Capital Corporation ("GE Capital") or its subsidiary, Monogram Bank, USA ("Monogram" and, collectively with GE Capital, "GE/Monogram"), pursuant to an Account Purchase Agreement and a Commercial Accounts Agreement, for an aggregate purchase price of \$1,390,654,000 (including \$61,131,000 of debt assumption) ("Receivable Transaction"). Additionally, the registrant and certain of its subsidiaries, including the Operating Companies, entered into ongoing arrangements with GE/Monogram pursuant to which, among other things, GE/Monogram established (and will continue to establish) credit card accounts with customers of the Operating Companies, and assumed the responsibility for financing and servicing credit card receivables generated in such accounts.

GE/Monogram continues to make remittances and perform other obligations under the applicable agreements in the ordinary course of business. Certain Bankruptcy Court proceedings are pending with respect to these arrangements; See Part II, Item 1 ("Legal Proceedings") of this report.

The statement of operations for the quarter and six months ended February 2, 1991 includes the effects of prior credit card receivables related activities of Macy.

For comparison purposes, presented below are the unaudited pro forma results of operations for the comparable quarter and six month period in the prior year assuming the sale of receivables and accounts and the ongoing arrangements had occurred prior to the beginning of the respective periods:

	For the Quarter Ended <u>February 2, 1991</u>	For the Six Months Ended <u>February 2, 1991</u>
Net retail sales	<u>\$ 2,196,235,000</u>	<u>\$ 3,742,335,000</u>
Operating profit	<u>\$ 142,848,000</u>	<u>\$ 178,207,000</u>
Earnings/(loss) before income tax expense/(benefit)	\$ 4,808,000	\$ (101,766,000)
Income tax expense/(benefit)	<u>11,756,000</u>	<u>(23,855,000)</u>
Net loss before extraordinary gain	<u>\$ (6,948,000)</u>	<u>\$ (77,911,000)</u>
Net loss per share of common stock before extraordinary gain	<u>\$ (8.91)</u>	<u>\$ (56.26)</u>

The adjustments necessary to present the unaudited pro forma results of operations for the prior year's quarter and six months on a comparable basis with the current quarter are as follows: (i) the elimination of finance charge income and bad debt expense, (ii) the addition of the discount charged by GE/Monogram for remittances in respect of new credit card sales (Items (i) and (ii) result in a net reduction of operating profit by approximately \$39,655,000 and \$85,601,000 for the quarter and six month periods), (iii) the reduction in interest expense (approximately \$40,255,000 and \$78,856,000 for the quarter and six months periods), (iv) an adjustment to reflect income taxes on a pro forma basis and (v) the elimination of the extraordinary gain net of income tax expense.

The pro forma amounts are provided for informational purposes only and should not be construed to be indicative of actual results that would have been achieved had the Receivable Transaction and the related arrangements occurred prior to the commencement of the fiscal quarter and are not necessarily indicative of future results.

5. The value of merchandise inventories is determined by the retail inventory method using the lower of LIFO (last-in, first-out) cost or market for about 74% of the total inventory, and the retail inventory method using the lower of FIFO (first-in, first-out) cost or market for the balance of the inventory. If inventories had been valued at the lower of FIFO cost or market, inventories would have increased by \$121,591,000, \$96,008,000 and \$111,591,000 at February 1, 1992, February 2, 1991 and August 3, 1991.

6. Macy's requirement to reduce its outstanding borrowings under the Macy Revolving Credit Facility under its Pre-Petition Bank Credit Agreement was amended such that during the sixty days beginning on December 16, 1991 and ending on February 13, 1992, the outstanding Revolving Credit Facility borrowings was not to be greater than \$150,000,000 nor less than \$1,000,000 for one period of 30 consecutive days and, further, for one period of 7 consecutive days within this 30 day period, was not to be greater than \$75,000,000 nor less than \$1,000,000. The registrant met this requirement; however, this amendment is of no continuing significance as the Macy Debtors have filed Chapter 11 cases, and are in default of the Pre-Petition Bank Credit Agreement.

7. The finance subsidiaries of the registrant for receivables financing previously included Credit, Funding Corp., R. H. Macy Overseas Finance N.V. and Macy Receivables Master Servicing Corp.

In May, 1991, Credit and Funding Corp. sold all of the credit card accounts originated by the Operating Companies and all receivables existing under such accounts to GE/Monogram. All agreements between these finance subsidiaries and the Operating Companies related to the purchasing and servicing of receivables were terminated as of the closing of the Receivable Transaction and all operations of these finance subsidiaries ceased. Therefore, the summarized unaudited combined results of operations of the finance subsidiaries are only presented for the quarter and six months ended February 2, 1991 of the prior fiscal year.

The summarized unaudited combined actual results of operations of the named finance subsidiaries follow:

(Dollars in thousands)	For the Quarter Ended <u>February 2, 1991</u> (14 weeks)	For the Six Months Ended <u>February 2, 1991</u> (27 weeks)
Revenue (substantially earnings on investment in receivables under deferred payment accounts received from the registrant and finance charge income)	\$112,367	\$211,575
Earnings before income taxes	27,894	59,285
Net earnings	16,600	34,789

8. The unusual item in the quarter ended February 1, 1992 primarily relates to the write-off of remaining excess of cost over fair value of the net assets acquired during the 1986 Acquisition of Former Macy's (the "Acquisition") and the 1988 acquisition of the I. Magnin and the Bullocks's /Bullock's Wilshire divisions of Federated Department Stores, Inc. (the "New Divisions") (\$241,452,000) (see below) and the one-time costs incurred for Macy's organizational realignment. Effective February 2, 1992, Macy created two larger regional department store groups, Macy's East and Macy's West. Macy's East consists of the Macy's Northeast stores as well as the stores of Macy's South located in Alabama, Florida, Georgia, Louisiana and South Carolina. Macy's West consists of the Macy's California and Bullock's stores as well as the stores of Macy's South located in Texas. I. Magnin was not affected by the realignment.

The unusual items in the six months ended February 1, 1992 primarily relate to (a) the write-off of remaining excess of cost over fair value of the net assets acquired during the Acquisition and the 1988 acquisition of the New Divisions (\$241,452,000), (b) the organizational realignment described above and (c) the costs incurred in the one-time liquidation of certain aged inventory in temporary inventory liquidation facilities during the quarter ended November 2, 1991. This event was a result of Macy's modification in inventory management policy for the department stores which led to the establishment of its new inventory closeout operation, Macy's Closeout.

The excess cost over fair value of the net assets acquired resulted from the purchase price paid in 1986 for the Acquisition and in 1988 for the New Divisions. As a result of Macy's recent operating performance, its overall decline in financial condition, current economic conditions and an assessment of the prospects for specific stores, it appears that future sales, earnings and cash flow amounts do not substantiate Macy's continuing to carry this value on its statement of financial condition. Therefore, Macy has written-off as of February 1, 1992 the remaining excess of cost over fair value of the net assets acquired.

9. The reconciliation of taxes on income at the federal rate to the actual amounts provided is as follows:

(Dollars in thousands)	For the Quarter Ended		For the Six Months Ended	
	February 1, 1992 (13 weeks)	February 2, 1991 (14 weeks)	February 1, 1992 (26 weeks)	February 2, 1991 (27 weeks)
Tax expense/(benefit) computed at federal tax rate of 34%:	\$ -	\$ 1,431	\$ -	\$ (32,307)
Increase (decrease) resulting from:				
Depreciation and amortization of step-up of net assets (not deductible for tax purposes)	-	9,736	-	18,887
State and local income tax expense/(benefit), net of federal tax	-	333	-	(7,526)
Other - net	-	4	-	(76)
	<u>\$ -</u>	<u>\$11,504</u>	<u>\$ -</u>	<u>\$ (21,022)</u>

Under current accounting rules, an income tax benefit cannot be recognized for the loss incurred in the quarter and six months ended February 1, 1992 since the benefit is not expected to be recovered as an income tax cash refund or savings currently or in the near future. The income tax benefit not recognized will be carried forward to offset potential future earnings.

10. In the quarter and six months ended February 2, 1991, the extraordinary gain primarily relates to the gain on the repurchase of subordinated indebtedness by the registrant or its subsidiary at a discount, net of income tax expense.

11. Net retail sales include sales from licensed departments of \$24,715,000 and \$28,234,000 for the quarters ended February 1, 1992 and February 2, 1991 and \$46,963,000 and \$51,075,000 for the six months ended February 1, 1992 and February 2, 1991.

12. Net earnings/(loss) per share of common stock is computed by dividing net earnings/(loss) attributable to common stock (net earnings/(loss) less/(plus) the accrued dividends and accretion on the convertible preferred stock (redeemable)) by the weighted average number of shares outstanding during the period. Macy has ceased accruing dividends on the convertible preferred stock as of January 27, 1992. Fully diluted earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period assuming the conversion of convertible preferred stock (redeemable) into common stock. The effect of the assumed conversion of the convertible preferred stock (redeemable) on net earnings/(loss) per share for the quarter and six months ended February 1, 1992 is antidilutive and therefore not presented.

13. Certain reclassifications have been made to the February 2, 1991 financial statements to conform to classifications used at February 1, 1992.

Results of Operations

Chapter 11 Filing

On January 27, 1992, the registrant together with nine of its subsidiaries, filed for relief under Chapter 11 of the Bankruptcy Code. Thereafter, on January 31, 1992, 78 additional subsidiaries of the registrant filed Chapter 11 cases in the Bankruptcy Court. Under Chapter 11, the Macy Debtors will continue to conduct business in the ordinary course under the protection of the Bankruptcy Code while a reorganization plan is developed to restructure and reorganize the leveraged debt structure and allow the Macy Debtors to strengthen their financial position.

As a result of the Chapter 11 cases, interest expense will be reduced as Macy has ceased accruing interest expense on unsecured debt obligations. In contrast, results will be affected unfavorably by the administrative and reorganization expenses resulting from the commencement of the Chapter 11 cases. Additionally, future results may be adversely affected by other claims and factors resulting from the Chapter 11 cases.

Sale of Accounts and Receivables

The sale of accounts and receivables to GE Capital or its subsidiary, Monogram ("Receivable Transaction") and the related arrangements have significant effects on certain expense items and limit the comparability of the results of operations and expense classifications for all periods prior to the May 10, 1991 sale date (See Note 4 of Notes to the Condensed Consolidated Financial Statements).

As a result of the Receivable Transaction, operations and expense classifications have been affected as follows: (i) selling, general and administrative expenses increase as finance charge income (which was previously recorded as a reduction of this expense classification) and bad debt expense is eliminated, and the discount charged by GE/Monogram on new credit card sales is included and (ii) interest expense decreases as the expense of financing new credit card receivables is borne by GE/Monogram. GE/Monogram continues to make remittances and perform other obligations under the applicable agreements in the ordinary course of business. Certain Bankruptcy Court proceedings are pending with respect to these arrangements; See Part II, Item 1 ("Legal Proceedings") of this report.

Comparison of Operations

Sales for the quarter (13 weeks) and six months (26 weeks) ended February 1, 1992 were \$2,055,875,000 and \$3,657,146,000 compared with sales of \$2,196,235,000 and \$3,742,335,000 for the quarter (14 weeks) and six months (27 weeks) ended February 2, 1991. Sales decreased 6.4% and 2.3% for the quarter and six months ended February 1, 1992 compared with the corresponding periods in the prior year. On a comparable store and comparable week basis, sales decreased 3.4% and .5% in the quarter and six months periods. Sales were adversely affected by the further erosion in consumer confidence due to the national economic recession, depressed economic conditions in Macy's key markets in the Northeast and California, and the disruption in the normal receipt of merchandise during the period surrounding the Chapter 11 filings.

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Cost of goods sold, including occupancy and buying costs, as a percentage of sales were 81.7% and 75.4% for the quarter and six months ended February 1, 1992 compared with 69.1% and 68.2% for the quarter and six months ended February 2, 1991. The unfavorable percentage variations is primarily related to additional markdowns recorded (10.7% and 7.3% of sales in the quarter and six months ended February 1, 1992) as a result of the disappointing holiday selling season.

Selling, general and administrative expenses, as a percentage of sales, were 28.7% and 30.4% for the quarter and six months ended February 1, 1992 compared with 22.6% and 24.7% for the quarter and six months ended February 2, 1991. Selling, general and administrative expenses as a percentage of sales would have been 26.3% and 27.7% of sales without the effects of the Receivable Transaction for the quarter and six months ended February 1, 1992. The percentage increase other than the portion attributable to the Receivable Transaction was primarily the result of higher sales promotion expenses (1.6% and 1.7% of sales for the quarter and six month periods).

Operating profit (loss) defined as net retail sales less cost of goods sold, including occupancy and buying costs, and selling, general and administrative expenses was a loss of \$214,875,000 and \$212,168,000 for the quarter and six months ended February 1, 1992 compared with an operating profit of \$182,503,000 and \$263,808,000 for the quarter and six months ended February 2, 1991. The operating loss for the quarter and six months ended February 1, 1992 was primarily a result of lower than anticipated sales and the related decision to take additional markdowns. Operating profit includes a charge for depreciation and amortization expense (non-cash expenses) of \$73,083,000 and \$142,722,000 for the quarter and six months ended February 1, 1992 and \$71,698,000 and \$143,045,000 for the quarter and six months ended February 2, 1991.

The unusual items in the quarter ended February 1, 1992 primarily relate to the write-off of remaining excess of cost over fair value of the net assets acquired during the 1986 Acquisition and the 1988 acquisition of the New Divisions, (\$241,452,000) and the costs incurred for Macy's East-West organizational realignment (See Note 8 of Notes to the Condensed Consolidated Financial Statements). The unusual items in the six months ended February 1, 1992 include (a) the write-off of remaining excess of cost over fair value of the net assets acquired during the 1986 Acquisition and the 1988 acquisition of the New Divisions, (b) the costs incurred in the East-West organizational realignment and (c) the costs incurred in the one-time liquidation of certain aged inventory in temporary inventory liquidation facilities during the quarter ended November 2, 1991. This event was a result of Macy's modification in inventory management policy for the department stores which led to the establishment of its new inventory closeout operation, Macy's Closeout.

Interest expense-net decreased by \$109,382,000 and \$161,853,000 for the quarter and six months ended February 1, 1992 compared with the corresponding periods in the prior year. The decrease in interest expense is primarily due to the Receivable Transaction, the repurchase of subordinated indebtedness in the prior year and the revaluation of interest recorded on the participating mortgage loan.

Reorganization expenses in the quarter and six months ended February 1, 1992 primarily relate to (a) the estimated costs associated with the closing of certain stores (\$76,000,000), (b) the write-off of deferred debt expenses associated with the unsecured long-term debt (\$16,307,000) and (c) the write-off of Preferred Stock issuance costs (\$8,280,000).

The extraordinary gain in the quarter and six months ended February 2, 1991 primarily relates to the gain on the repurchase of subordinated indebtedness by the registrant or a subsidiary at a discount, net of income tax expense.

Effective income tax rates for the quarter and six months ended February 2, 1991 were each 42% of loss before income tax benefit prior to certain expenses arising from purchase accounting adjustments which are non-deductible for tax purposes. Under current accounting rules, an income tax benefit cannot be recognized for the loss incurred in the quarter and six months ended February 1, 1992 because the benefit is not expected to be recovered as an income tax cash refund or savings currently or in the near future.

Financial Condition

As a result of the Chapter 11 filings, Macy's liquidity position has been positively affected because the cash requirements for the payment of scheduled principal payments, accrued interest, accounts payable and other liabilities, which arose prior to the Chapter 11 filings are in most cases deferred until a plan of reorganization is approved by the Bankruptcy Court. For financial statement purposes and conservatism only, interest expense on secured debt will continue to be accrued but is subject to settlement. No determination has been made regarding the value of the property interests which secure certain debt and consequently, whether or not interest thereon will be paid. Macy is also reviewing all future obligations under all store and equipment leases, as well as all other executory contracts to determine whether they should be assumed or rejected subject to Bankruptcy Court approval.

On January 29, 1992, the Bankruptcy Court entered an interim order approving the debtor-in-possession financing arrangement (the "Post-Petition Credit Agreement") dated as of January 27, 1992, among the registrant, as Borrower, each of the other Macy Debtors as guarantors, Chemical Bank, as administrative agent, and Bankers Trust Company as co-agent, and other financial institutions to become parties thereto ("the Post-Petition Lenders") that established, a revolving credit facility in the maximum amount of \$600,000,000, (the "Working Capital Facility"). This interim order limited the registrant's borrowing thereunder to \$60,000,000; a subsequent order was entered on February 13, 1992 authorizing the Company to borrow up to the entire \$600,000,000 available under the Working Capital Facility. Borrowings under the Working Capital Facility may be used to fund working capital, inventory purchases, capital expenditures and for other general corporate purposes of the Macy Debtors. The Post-Petition Credit Agreement includes restrictions on capital expenditures and certain other payments, as well as a covenant relating to minimum cash flow.

Under the Post-Petition Credit Agreement, the Post-Petition Lenders agree to make revolving loans to, and to issue letters of credit for Macy in an amount not exceeding at any time the lesser of the Borrowing Base (as defined in the Post-Petition Credit Agreement) and \$600,000,000. The Working Capital Facility includes a sublimit of which \$250,000,000 for standby and documentary letters of credit, of which no more than \$30,000,000 may be utilized for standby letters of credit. Each subsidiary of the registrant that commenced a Chapter 11 case is a guarantor of the registrant's obligations under the Post-Petition Credit Agreement.

The Post-Petition Credit Agreement provides that advances made under the Working Capital Facility will bear interest at a rate of 1.5% percent per annum in excess of Chemical Bank's Alternative Base Rate, ("ABR"), or at the registrant's option, a rate of 2.5% per annum in excess of the reserve adjusted London Interbank Offered Rate ("LIBOR") for interest periods of one, three, or six months. Interest on ABR loans and three and six month LIBOR loans are payable quarterly in arrears; and interest on one month LIBOR loans are payable monthly in arrears.

Under the Post-Petition Credit Agreement, Macy pays a commitment fee of 1/2 of 1% per annum on the unused portion of the Working Capital Facility, a letter of credit fee equal to 2% per annum of average outstanding letters of credit and certain other fees. The Post-Petition Credit Agreement expires on the earlier of February 28, 1994 or the substantial consummation of a plan of reorganization which is confirmed pursuant to an order entered by the Bankruptcy Court. Under the Post-Petition Credit Agreement, the Post-Petition Lenders were granted a superpriority claim for all obligations of the Macy Debtors arising under the agreement.

Substantially all of Macy's pre-petition short and long-term debt at February 1, 1992 is in default of the terms of the applicable loan agreements and is subject to settlement under the reorganization process. For financial reporting purposes, those liabilities which are dependent upon the outcome of the Chapter 11 proceedings have been segregated and reclassified as "Obligations Subject to Settlement Under Reorganization Proceedings". Payment of certain pre-petition liabilities that were approved for payment by the Bankruptcy Court or are pending approval have been included in the appropriate liability captions.

Management believes the Working Capital Facility together with cash from operations and proceeds from asset dispositions should be adequate to cover working capital requirements and planned capital expenditures until the expiration of the Working Capital Facility. The adequacy of Macy's capital resources and long-term liquidity cannot be determined until a plan of reorganization is developed and confirmed by the Bankruptcy Court.

As of March 13, 1992, Macy has approximately \$247,600,000 of short-term investments and \$120,000,000 of standby Letters of Credit outstanding under the Working Capital Facility.

There has been a significant change in Macy's financial condition at February 1, 1992 compared to August 3, 1991. This is a result of the economic and financial conditions preceding the commencement of the Chapter 11 cases.

Fluctuations in certain balance sheet accounts between February 1, 1992 and August 3, 1991 reflect normal seasonal variations within the retail industry.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Commencement of Chapter 11 Proceedings

General. On January 27, 1992 the registrant and nine of its subsidiaries filed separate voluntary petitions for relief under Chapter 11, title 11 of the United States Code, as amended (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). On January 31, 1992, seventy-eight additional subsidiaries of Macy filed similar petitions in the Bankruptcy Court under Chapter 11 of the Bankruptcy Code. A complete list of the registrant's subsidiaries that filed such petitions (which, together with the registrant, are referred to herein as the "Macy Debtors") is set forth in Exhibit 28.1 to the registrant's current report on Form 8-K dated February 5, 1992, as amended under cover of Form 8 dated February 7, 1992, and is incorporated herein by reference. The cases of the Debtors are being jointly administered under Chapter 11 Case No. 92 B 40477(BRL) (Jointly Administered) (the "Chapter 11 Case").

The following discussion sets forth certain aspects of the Chapter 11 Case, but is not intended to be an exhaustive summary. For additional information regarding the effect of the Chapter 11 Case on the Macy Debtors, reference should be made to the Bankruptcy Code.

Chapter 11 Reorganization Under the Bankruptcy Code. Pursuant to Section 362 of the Bankruptcy Code, the commencement of the Chapter 11 Case created an automatic stay, applicable generally to creditors and other parties in interest, of: (i) the commencement or continuation of a judicial, administrative or other action or proceeding against the Macy Debtors that was or could have been commenced prior to commencement of the Chapter 11 Case, or to recover for a claim that arose prior to commencement of the Chapter 11 Case; (ii) the enforcement against the Macy Debtors or their property of any judgments obtained prior to commencement of the Chapter 11 Case; (iii) the taking of any action to obtain possession of property of the Macy Debtors or to exercise control over property of the Macy Debtors; (iv) the creation, perfection or enforcement of any lien against the property of the Macy Debtors' bankruptcy estates; (v) any act to create, perfect or enforce against property of the Macy Debtors any lien that secures a claim that arose prior to the commencement of the Chapter 11 cases; (vi) the taking of any action to collect, assess or recover claims against the Macy Debtors that arose before commencement of the Chapter 11 Case; (vii) the setoff of any debt owing to the Macy Debtors that arose prior to commencement of the Chapter 11 Case against any claim against the Debtors; or (viii) the commencement or continuation of a proceeding before the United States Tax Court concerning any of the Macy Debtors. Any entity may apply to the Bankruptcy Court, upon an appropriate showing of cause for relief from the automatic stay to exercise the foregoing remedies.

The Macy Debtors are authorized to operate their businesses as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

On February 4, 1992, an official committee of unsecured creditors was appointed by the United States Trustee and is acting in the Chapter 11 Case. Additionally, the United States Trustee on that day also appointed an official committee of bondholders of the registrant. Each committee is expected to participate in the formulation of any plan or plans of reorganization. The Macy Debtors are required to pay certain expenses of these committees, including professional fees, to the extent allowed by the Bankruptcy Court.

See Note 2 of Notes to the Condensed Consolidated Financial Statements relating to post-petition financing to the Macy Debtors.

Plan of Reorganization - Procedures. Under Section 1121 of the Bankruptcy Code, for 120 days after the date of the filing of a voluntary petition for relief under Chapter 11, only the debtor-in-possession has the right to propose and file a plan of reorganization with the Bankruptcy Court. If a debtor-in-possession files a plan of reorganization during the 120-day exclusivity period, no other party may file a plan of reorganization until 180 days after the date of filing of the Chapter 11 petition, during which period the debtor-in-possession has the exclusive right to solicit acceptances of the plan. If a debtor-in-possession fails to file a plan during the 120-day exclusivity period or such additional period as may be ordered by the Bankruptcy Court or, after such plan has been filed, fails to obtain acceptance of such plan from impaired classes of creditors and equity security holders during the exclusive solicitation period, any party in interest, including a creditors' committee, an equity security holders' committee, a creditor, an equity security holder, or any indenture trustee may file a plan of reorganization for such debtor. Additionally, if the Bankruptcy Court were to appoint a trustee, the exclusivity period, if not previously terminated, would terminate.

After a plan of reorganization has been filed with the Bankruptcy Court, it will be sent, together with a disclosure statement approved by the Bankruptcy Court following a hearing, to members of all classes of impaired creditors and equity security holders for acceptance or rejection. Following acceptance or rejection of any plan by impaired classes of creditors and equity security holders, the Bankruptcy Court after notice and a hearing would consider whether to confirm the plan. Among other things, to confirm a plan the Bankruptcy Court is required to find (i) with respect to each impaired class of creditors and equity security holders, that each holder of a claim or interest of such class either (a) will, pursuant to the plan, receive or retain property of a value, as of the effective date of the plan, that is at least as much as such holder would have received in a liquidation on such date of the Macy Debtors, or (b) has accepted the plan, (ii) with respect to each class of claims or equity security holders, that such class has accepted the plan or such class is not impaired under the plan and (iii) confirmation of the plan is not likely to be followed by the liquidation or need for further financial reorganization of the Macy Debtors or any successors unless such liquidation or reorganization is proposed in the plan.

If any impaired class of creditors or equity security holders does not accept a plan and assuming that all of the other requirements of section 1129(a) of the Bankruptcy Code are met, the proponent of the plan may invoke the so-called "cramdown" provisions of section 1129(b) of the Bankruptcy Code. Under these provisions, the Bankruptcy Court may confirm a plan, notwithstanding the non-acceptance of the plan by an impaired class of creditors or equity security holders, if certain requirements of the Bankruptcy Code are met, including that (i) the plan does not discriminate unfairly and (ii) the plan is fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted the plan. As used in the Bankruptcy Code, the phrases "discriminate unfairly" and "fair and equitable" have narrow and specific meanings unique to bankruptcy law.

Bankruptcy Court Proceedings Relating to GECC/Monogram Receivable Transaction: On January 27, 1992, the Bankruptcy Court provisionally approved the assumption of the GECC/Monogram program agreements by certain of the Macy Debtors and certain amendments and related agreements thereto, subject to the right of other parties in interest to file objections and to review such relief (the "Initial Order"). On February 11, 1992, a hearing was held in the Bankruptcy Court to consider certain objections to the Initial Order. At such hearing, the Court afforded additional time to parties in interest to review certain of the arrangements and relief provided in the Initial Order. The various parties in interest are continuing negotiations regarding the terms and conditions of a final order or other requests for relief to be submitted for approval of the Bankruptcy Court. The Initial Order remains in effect pending entry of such Supplemental Order and any further relief provided by the Court. The failure of a resolution of the foregoing proceedings to GECC's satisfaction may result in a termination, in the absence of the registrant's obtaining a comparable arrangement, could have a material adverse effect on the registrant. GECC/Monogram is continuing to make remittances to the Macy Debtors and service credit card accounts, and to establish new credit card account relationships with, and to extend credit to, customers of the Macy Debtors pursuant to the terms of the applicable agreements.

Other Legal Matters

As most recently reported in Item 1 of Part II of the registrant's quarterly report on Form 10-Q for the fiscal quarter ended November 2, 1991, four essentially identical proposed class actions were commenced in April and May 1989, in the Supreme Court of the State of New York, County of New York, alleging that the registrant and Campeau Corp., in violations of the Donnelly Act (New York General Business Law, Section 340 (1)), engaged in a combination and conspiracy to refrain from bidding against each other for the purchase of the common stock of Federated Department Stores, Inc. in 1988. In addition, the plaintiffs alleged common law claims of tortious interference with prospective economic advantage, promissory estoppel, and breach of an implied covenant of good faith and fair dealing. The plaintiffs sought actual damages in an unspecified amount, together with treble damages as to the Donnelly Act claims and costs of suit, including attorneys' fees, for themselves and a proposed class of all persons similarly situated. Case v. R. H. Macy & Co., Inc. ("R. H. Macy") et al., D. Kahn v. R. H. Macy, et al., Rodenberg v. R. H. Macy, et al., and H. Kahn v. R. H. Macy, et al. In a decision and order entered in May 1990 the Court dismissed

these four consolidated actions in their entirety. The plaintiffs appealed and on October 10, 1991 the Appellate Division, First Judicial Department, unanimously affirmed the dismissal. In November 1991, the plaintiffs moved for leave to appeal this decision to the New York Court of Appeals, and on January 16, 1992, the Court denied the motion.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

The filing by the registrant on January 27, 1992 of a voluntary petition for relief under Chapter 11 of the Bankruptcy Code constituted a default under the terms of substantially all of the registrant's loan agreements, notes, indentures and debentures. See Note 2 of Notes to the Condensed Consolidated Financial Statements.

The registrant has never declared dividends on any series of its Convertible Preferred Stock; however, from the date of initial issuance of each of the existing three series of such Preferred Stock, dividends have been accrued quarterly at the rate of 8% per year on each such series. As of January 27, 1992, the registrant has discontinued accruing such dividends since the right of the holders of Convertible Preferred Stock to receive any dividends for periods ending after the petition date cannot be determined until a plan of reorganization is confirmed. As of January 27, 1992, there were 13,004,301 shares of Convertible Preferred Stock outstanding.

Item 4. Submission of Matters to a Vote of Security Holders

As previously reported in Item 4 of Part II of the registrant's quarterly report on Form 10-Q for the fiscal quarter ended November 2, 1991, the procedures relating to the election of 16 Directors of the registrant (which were initiated during such first fiscal quarter) were completed by written consent of stockholders as of November 18, 1991. See also Item 5 below.

Item 5. Other Information

Mark S. Handler, President of the registrant, has been named as chief merchandising officer and Myron E. Ullman, III, Vice Chairman of the Board of Directors of the registrant, has been named as chief operating officer.

On January 23, 1992, Harold D. Kahn resigned as a Director of the registrant and Rose Marie Bravo, Chairman of I. Magnin, Inc., a subsidiary of the registrant, was elected that day by the Board of Directors to fill this vacancy. Ms. Bravo resigned on January 27, 1992 effective upon the filing of the registrant's voluntary petition for relief under Chapter 11 of the Bankruptcy Code; under the form of By-Laws of the registrant which became effective upon that Chapter 11 filing, the number of directors changed from 16 to 15.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

<u>Exhibit No.</u>	<u>Exhibits</u>
11	Computation of net loss per share and fully diluted net loss per share.
19.1	(Post-Petition) Revolving Credit and Guaranty Agreement dated as of January 27, 1992 among R. H. Macy & Co., Inc. ("Borrower") as debtor and debtor-in-possession, certain subsidiaries of the registrant as Guarantors, as debtors and debtors-in-possession, the Banks parties thereto, Chemical Bank as Administrative Agent and Bankers Trust Company, as Co-Agent (the "Post-Petition Credit Agreement").
19.2	First Amendment dated as of February 6, 1992 to the Post-Petition Credit Agreement.
19.3	Second Amendment dated as of February 13, 1992 to the Post-Petition Credit Agreement.
19.4	Third Amendment dated as of March 5, 1992 to the Post-Petition Credit Agreement.
19.5	Agreement with a current director-executive officer.
19.6	Amendment dated January 27, 1992 to Credit Card Program Agreement and Commercial Accounts Agreement between Monogram Bank, USA and General Electric Capital Corporation and R. H. Macy & Co., Inc. and certain subsidiaries.
19.7	Supplemental life insurance plan for certain directors, executive officers and certain other executive employees effective October 1, 1980 and as amended through January 27, 1992 (summary description).

(b) Reports on Form 8-K

During the most recently completed fiscal quarter ended February 1, 1992, the registrant did not file a current report on Form 8-K. On February 6, 1992, the registrant filed a current report on Form 8-K dated February 5, 1992, as amended under cover of Form 8 dated February 7, 1992 and filed February 12, 1992, relating to the filings by the registrant and certain of its subsidiaries of voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York.

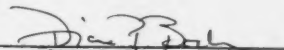
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

R. H. Macy & Co., Inc.
(Registrant)

Date: March 16, 1992

By:


Diane P. Baker
Senior Vice President -
Finance
(Principal Financial Officer)

AND CONSOLIDATED SUBSIDIARIES
(DEBTORS-IN-POSSESSION)

COMPUTATION OF NET LOSS PER SHARE AND

FULLY DILUTED NET LOSS PER SHARE

(Dollars and shares in thousands, except per share)

(Unaudited)

	For the Quarter Ended		For the Six Months Ended		Pro forma	
	February 2, 1992		February 2, 1991		For the Quarter Ended	For the Six Months Ended
	February 1, 1992 (13 weeks)	February 2, 1991 (14 weeks)	February 1, 1992 (26 weeks)	February 2, 1991 (27 weeks)	February 2, 1991 (14 weeks)	February 2, 1991 (27 weeks)
NET EARNINGS/(LOSS) PER SHARE:						
Net earnings/(loss) applicable to common stock:						
Net loss before extraordinary gain	\$ (671,575)	\$ (7,296)	\$ (826,931)	\$ (73,999)	\$ (6,948)	\$ (77,911)
Less:						
Dividends on preferred stock	(9,322)	(7,432)	(19,302)	(13,670)	(7,432)	(13,670)
Accretion on preferred stock	(166)	(177)	(344)	(354)	(177)	(354)
Net loss before extraordinary gain applicable to common stock	(681,063)	(14,905)	(846,577)	(88,023)	(14,557)	(91,935)
Extraordinary gain, net	-	85,337	-	95,502	85,337	95,502
Net earnings/(loss) applicable to common stock	<u>\$ (681,063)</u>	<u>\$ 70,432</u>	<u>\$ (846,577)</u>	<u>\$ 7,479</u>	<u>\$ 70,780</u>	<u>\$ 3,567</u>
Number of weighted average shares of common stock outstanding	<u>1,631</u>	<u>1,634</u>	<u>1,633</u>	<u>1,634</u>	<u>1,634</u>	<u>1,634</u>
Net earnings/(loss) per share:						
Net loss before extraordinary gain	\$ (417.57)	\$ (9.12)	\$ (518.42)	\$ (53.87)	\$ (8.91)	\$ (56.26)
Extraordinary gain, net	-	52.22	-	58.45	52.22	58.45
Net earnings/(loss)	<u>\$ (417.57)</u>	<u>\$ 43.10</u>	<u>\$ (518.42)</u>	<u>\$ 4.58</u>	<u>\$ 43.31</u>	<u>\$ 2.19</u>

**AND CONSOLIDATED SUBSIDIARIES
(DEBTORS-IN-POSSESSION)**

COMPUTATION OF NET LOSS PER SHARE AND

FULLY DILUTED NET LOSS PER SHARE

(Dollars and shares in thousands, except per share)
(Unaudited)

	For the Quarter Ended		For the Six Months Ended		Pro forma	
	February 1, 1992 (13 weeks)	February 2, 1991 (14 weeks)	February 1, 1992 (26 weeks)	February 2, 1991 (27 weeks)	For the Quarter Ended February 2, 1991 (14 weeks)	For the Six Months Ended February 2, 1991 (27 weeks)
FULLY DILUTED NET EARNINGS/(LOSS) PER SHARE:						
Net loss before extraordinary gain	\$ (671,575)	\$ (7,296)	\$ (826,931)	\$ (73,999)	\$ (6,948)	\$ (77,911)
Extraordinary gain, net	-	85,337	-	95,502	85,337	95,502
Net earnings/(loss)	<u>\$ (671,575)</u>	<u>\$ 78,041</u>	<u>\$ (826,931)</u>	<u>\$ 21,503</u>	<u>\$ 78,389</u>	<u>\$ 17,591</u>
Number of weighted average shares of common stock outstanding on a fully diluted basis:						
Shares of common stock outstanding at beginning of period	1,634	1,634	1,634	1,634	1,634	1,634
Shares of common stock resulting from conversion of preferred shares (weighted average)	13,004	9,492	13,004	8,575	9,492	8,575
Shares of common stock reacquired during the period (weighted average)	<u>(3)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Number of weighted average shares of common stock outstanding on a fully diluted basis	<u>14,635</u>	<u>11,126</u>	<u>14,637</u>	<u>10,209</u>	<u>11,126</u>	<u>10,209</u>
Fully diluted net earnings/(loss) per share:						
Net loss before extraordinary gain	\$ (45.89)	\$ (0.66)	\$ (56.50)	\$ (7.25)	\$ (0.62)	\$ (7.63)
Extraordinary gain, net	-	7.67	-	9.36	7.67	9.36
Net earnings/(loss)	<u>\$ (45.89)</u>	<u>\$ 7.01</u>	<u>\$ (56.50)</u>	<u>\$ 2.11</u>	<u>\$ 7.05</u>	<u>\$ 1.73</u>

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
RECD S.E.C.
MAR 13 1992

Washington, D.C. 20549

FORM 10-Q

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92-2243

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 1992

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-18724

**BEST COPY
AVAILABLE**

MARQUETTE ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

Wisconsin

39-1046671

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification Number)

8200 W. Tower Avenue, Milwaukee, Wisconsin

53223

(Address of Principal Executive Offices)

(Zip Code)

(414) 355-5000

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PROCESSED BY
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MAR 23 1992

Outstanding

at February 29, 1992

Class A, \$.10 par

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

15,746,480 Shares

Class C, \$.01 par value

L3Q

26,250,000 Shares

MARQUETTE ELECTRONICS, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

MARQUETTE ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)
(UNAUDITED)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
Net Sales	\$ 60,607	\$ 56,017	\$167,678	\$154,805
Cost of Sales	<u>29,617</u>	<u>27,910</u>	<u>81,068</u>	<u>75,107</u>
Gross profit	<u>30,990</u>	<u>28,107</u>	<u>86,610</u>	<u>79,698</u>
Engineering Expenses	4,638	4,632	13,240	13,892
Selling Expenses	15,584	13,781	42,994	40,101
General and Administrative Expenses	<u>4,662</u>	<u>4,808</u>	<u>13,105</u>	<u>13,777</u>
Total operating expenses	<u>24,884</u>	<u>23,221</u>	<u>69,539</u>	<u>67,770</u>
Income from operations	6,106	4,886	17,071	11,928
Interest Expense	430	655	1,701	1,805
Other Income, net	<u>(437)</u>	<u>(707)</u>	<u>(1,180)</u>	<u>(3,233)</u>
Income before income taxes	6,113	4,938	16,550	13,356
Provision for Income Taxes	<u>2,603</u>	<u>1,979</u>	<u>6,596</u>	<u>5,317</u>
Net Income	<u>\$ 3,510</u>	<u>\$ 2,959</u>	<u>\$ 9,954</u>	<u>\$ 8,039</u>
Net Income per Class A Common Share	<u>\$.22</u>	<u>\$.19</u>	<u>\$.64</u>	<u>\$.51</u>
Shares used in per share calculation	<u>15,999</u>	<u>15,833</u>	<u>15,528</u>	<u>15,860</u>

The accompanying notes are an integral part of these statements.

MARQUETTE ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Amounts in Thousands, Except Per Share Data)

ASSETS	As of January 31, 1992 (Unaudited)	As of April 30, 1991
CURRENT ASSETS:		
Cash and cash equivalents	\$ 135	\$ 2,148
Accounts receivable, less allowances of \$345 and \$238, respectively	71,996	60,583
Inventories	45,876	42,495
Prepaid expenses and other	3,739	2,513
Deferred income tax benefits	<u>1,402</u>	<u>1,074</u>
Total current assets	123,148	108,813
PROPERTY AND EQUIPMENT, NET	40,439	36,718
OTHER ASSETS	<u>10,863</u>	<u>10,261</u>
	<u>\$174,450</u>	<u>\$155,792</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable to bank	\$ 3,637	\$ 5,500
Current maturities of long-term debt	1,675	2,884
Accounts payable	14,361	12,985
Accrued liabilities	<u>22,248</u>	<u>16,391</u>
Total current liabilities	<u>41,921</u>	<u>37,760</u>
LONG-TERM DEBT, less current maturities	13,456	19,814
DEFERRED INCOME TAXES	2,111	2,402
MINORITY INTEREST	682	728
CLASS A COMMON STOCK UNDER REPURCHASE AGREEMENTS	17,675	13,814
SHAREHOLDERS' EQUITY:		
Class A Common Stock, \$.10 par value, 30,000,000 shares authorized, 15,867,255 and 15,121,564 shares issued, respectively	1,587	1,512
Class C Common Stock, \$.01 par value, 50,000,000 shares authorized, 26,250,000 shares issued and outstanding	263	263
Additional paid-in capital	24,092	13,167
Retained earnings	92,050	82,361
Treasury stock, at cost, 120,775 shares of Class A Common Stock	(1,650)	(1,650)
Cumulative translation adjustment	(62)	(565)
Class A Common Stock under repurchase agreements	<u>(17,675)</u>	<u>(13,814)</u>
Total shareholders' equity	<u>98,605</u>	<u>81,274</u>
	<u>\$174,450</u>	<u>\$155,792</u>

The accompanying notes are an integral part of these balance sheets.

MARQUETTE ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

For the Nine Months Ended January 31, 1992 and 1991

(Amounts in Thousands)
(UNAUDITED)

	<u>1992</u>	<u>1991</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	\$ 6,206	\$(4,423)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Property and equipment additions, net	(9,248)	(4,990)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) from notes payable to bank, net	(1,863)	9,044
Proceeds from issuance of long-term debt	1,861	1,275
Payments on long-term debt	(9,428)	(1,328)
Proceeds from issuance of common stock	10,223	234
Purchase of common stock	<u>(267)</u>	<u>(1,387)</u>
Net cash provided by financing activities	526	7,838
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>503</u>	<u>848</u>
Net decrease in cash and cash equivalents	(2,013)	(727)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,148</u>	<u>1,164</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 135</u>	<u>\$ 437</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for-		
Interest	\$ 1,735	\$ 1,734
Income taxes	\$ 7,136	\$ 4,066

The accompanying notes are an integral part of these statements.

MARQUETTE ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Per Share Data)

(UNAUDITED)

(1) Basis of Presentation-

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of the Company, adequate disclosures have been presented to make the information not misleading, and all adjustments necessary to present fair statements of the results of operations, financial position and cash flows have been included. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements included in Marquette Electronics, Inc.'s Registration Statement on Form S-1.

(2) Inventories-

Inventories consist of the following:

	January 31, 1992	April 30, 1991
Raw materials and component parts	\$13,305	\$10,541
Work in process and finished goods	19,219	19,468
Demonstration inventory	<u>12,352</u>	<u>12,485</u>
	<u>\$45,876</u>	<u>\$42,495</u>

(3) Acquisition of Marquette N. Ireland Limited-

On May 1, 1991, the Company acquired the remaining 9% of the ordinary shares of Marquette N. Ireland Limited for an aggregate purchase price of \$958, consisting of \$179 in cash and 60,290 shares of Class A Common Stock. This acquisition resulted in additional goodwill of \$620.

(4) Issue of Common Stock-

On November 1, 1991, the Company issued 680,000 additional shares of Class A Common Stock and sold the shares as part of an initial public offering for net proceeds of \$10,077. The proceeds were used primarily to retire indebtedness carrying interest at the prime rate.

(5) Stock Repurchase Agreements-

Effective with the public offering of its common stock, the Company's obligation to purchase Class A Common Stock under certain of the agreements described in Note 10 to the Consolidated Financial Statements included in the Company's Registration Statement on Form S-1 is terminated. The aggregate contingent liability under these agreements at April 30, 1991, was approximately \$11,149.

ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations - Three-Month and Nine-Month Periods Ended January 31, 1992 and 1991

Net sales for the three-month period ended January 31, 1992 of \$60.6 million were \$4.6 million, or 8.2% higher than net sales for the three-month period ended January 31, 1991. Net sales for the nine-month period ended January 31, 1992 of \$167.7 million were \$12.9 million, or 8.3% higher than net sales for the same period last year. The increase in net sales for both periods was primarily related to increased sales of TRAM Critical Care Monitors and Cardiac Catheterization products. Net sales of monitoring products increased \$1.2 million, or 6.2% in the three-month period and \$5.8 million, or 10.7% in the nine-month period. Net sales of cardiac catheterization products increased \$1.4 million, or 127.0% in the three-month period and \$1.9 million, or 75.9% in the nine-month period.

Gross profit increased \$2.9 million, or 10.3% in the three-month period and \$6.9 million, or 8.7% in the nine-month period primarily related to increased sales. The gross profit margin was relatively stable at 51.7% for the nine-month period ended January 31, 1992 as compared with 51.5% for the same period last year.

Engineering expenses were level at \$4.6 million in each of the three-month periods ended January 31 and decreased \$.7 million, or 4.7% in the nine-month period ended January 31, 1992 as compared with the same period last year. The decrease in engineering costs reflects reduced new product development expenditures following the introduction of new patient monitoring products in March, 1990.

Selling expenses increased \$1.8 million in the three-month period ended January 31, 1992 and increased \$2.9 million, or 7.2% in the nine-month period reflecting expenses related to marketing the Clinical Information Management System under a distribution agreement with CliniComp, International, commissions paid on increased sales, and expenses related to an Australian sales subsidiary established in January, 1991.

General and administrative expenses were relatively stable with a decrease of \$.1 million in the three-month period ended January 31, 1992 and a decrease of \$.5 million, or 3.4% in the nine-month period ended January 31, 1992 as compared with the same periods last year.

Level operating expenses combined with increased sales resulted in an increase in income from operations of \$1.2 million, or 25.0% in the three-month period ended January 31, 1992 and \$5.1 million, or 43.1% in the nine-month period ended January 31, 1992 over the same periods last year.

Interest expense decreased \$.2 million, or 34.4% in the three-months ended January 31, 1992 and \$.1 million, or 5.8% in the nine-month period ended January 31, 1992 due to a reduction in the prime lending rate from the prior year.

Other income decreased \$.3 million, or 38.2% in the three-month period ended January 31, 1992 and \$2.1 million, or 63.5% in the nine-month period ended January 31, 1992 due primarily to foreign currency exchange gain recognized last year related to a weakening U.S dollar relative to European currencies.

The provision for income taxes increased to 42.6% in the three-month period ended January 31, 1992 and 39.9% in the nine-month period ended January 31, 1992 from 40.1% and 39.8% respectively, in the same periods last year due to unused foreign net operating losses in the three-month period ended January 31, 1992.

Liquidity and Capital Resources

As of January 31, 1992 the Company had \$3.0 million outstanding on lines of credit of \$17.5 million available for U.S. borrowings. In addition, the Company had \$2.5 million, U.S. equivalent, in foreign currency loans outstanding on lines of credit of \$10 million available for foreign currency borrowings. The foreign currency loans were placed as a natural hedge against foreign currency receivables.

Working capital was \$81.2 million at January 31, 1992 compared to \$71.1 million at April 30, 1991. Total inventories increased \$3.4 million of which \$2.8 million relates to raw materials to support increased shipping commitments and \$.9 million relates to demonstration inventories. Inventory increases were financed with working capital.

Capital expenditures during the nine-months ended January 31, 1992 were \$9.2 million, primarily related to construction of an 85,000 square foot addition to and renovation of the Milwaukee plant. The construction was funded with cash from operations.

On November 1, 1991, the Company issued 680,000 additional shares of Class A Common Stock and sold the shares as part of an initial public offering for net proceeds of \$10,077,000. The proceeds were used primarily to retire indebtedness carrying interest at the prime rate.

SIGNATURES

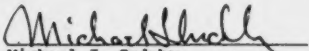
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Marquette Electronics, Inc.

(Registrant)

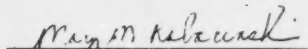
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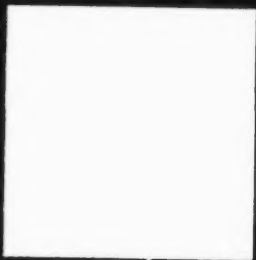

Michael J. Cudahy
President

Date:

3-11-72


Mary M. Nabacinski
Vice President/Treasurer

INTERIM REPORT



For the Nine Months Ended January 31, 1992

MARQUETTE ELECTRONICS, INC. AND SUBSIDIARIES

Unaudited Consolidated Condensed Statements
of Income and Cash Flows (Amounts in Thousands, Except Per Share Data)

STATEMENTS OF INCOME

	Three Months Ended January 31,		Nine Months Ended January 31,	
	1992	1991	1992	1991
Net Sales	\$ 60,607	\$ 56,017	\$ 167,678	\$ 154,805
Cost of Sales	<u>29,617</u>	<u>27,910</u>	<u>81,068</u>	<u>75,107</u>
Gross profit	30,990	28,107	86,610	79,698
Engineering Expenses	4,638	4,632	13,240	13,892
Selling Expenses	15,584	13,781	42,994	40,101
General and Administrative Expenses	<u>4,662</u>	<u>4,808</u>	<u>13,305</u>	<u>13,777</u>
Total operating expenses	24,884	23,221	69,539	67,770
Income from operations	6,106	4,886	17,071	11,928
Interest Expense	430	655	1,701	1,805
Other income, net	<u>(437)</u>	<u>(707)</u>	<u>(1,180)</u>	<u>(1,333)</u>
Income before income taxes	6,113	4,938	16,550	13,356
Provision for Income Taxes	<u>2,603</u>	<u>1,979</u>	<u>6,596</u>	<u>5,317</u>
Net Income	<u>\$ 3,510</u>	<u>\$ 2,959</u>	<u>\$ 9,954</u>	<u>\$ 8,039</u>
Net Income per Class A Common Share	<u>\$.22</u>	<u>\$.19</u>	<u>\$.64</u>	<u>\$.51</u>
Shares used in per share calculation	<u>15,999</u>	<u>15,833</u>	<u>15,528</u>	<u>15,860</u>

STATEMENTS OF CASH FLOWS

	Three Months Ended January 31, 1992	Three Months Ended January 31, 1991
Cash Flows From (Used in) Operating Activities	\$ 6,206	\$ (4,423)
Cash Flows Used in Investing Activities:		
Property and equipment additions, net	(9,248)	(4,990)
Cash Flows From Financing Activities:		
Proceeds (payments) from notes payable to bank, net	(1,863)	9,044
Proceeds from issuance of long-term debt	1,861	1,275
Payments on long-term debt	(9,428)	(1,328)
Proceeds from issuance of common stock	10,223	234
Purchase of common stock	(1,267)	(1,387)
Net cash provided by financing activities	526	7,838
Effect of Exchange Rate Changes On Cash and Cash Equivalents	503	848
Net decrease in cash and cash equivalents	(2,013)	(727)
Cash and Cash Equivalents at Beginning of Period	2,148	1,164
Cash and Cash Equivalents at End of Period	<u>\$ 135</u>	<u>\$ 437</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 1,735	\$ 1,734
Income taxes	\$ 7,136	\$ 4,066

Letter to Shareholders

Dear Shareholder:

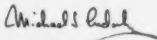
Marquette Electronics reported increased earnings over the third quarter last year. Net income increased 18.6% to \$3.5 million from \$3.0 million last year. Net income for the nine-month period ended January 31, 1992 increased 23.8% to \$9.9 million from \$8.0 million in the same period last year.

Operating income increased 25.0% to \$6.1 million from \$4.9 million in the third quarter last year. The improved operating income was primarily due to increased sales and an improved gross profit margin. Operating income for the nine-month period increased 43.1% to \$17.1 million over \$11.9 million last year.

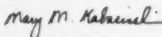
Net sales from the third quarter were \$60.6 million, up 8.2% from \$56.0 million last year. Net sales for the nine-month period increased 8.3% to \$167.7 million from \$154.8 million last year. Sales for Marquette's newest line, the cardiac catheterization product line increased 75.9% to \$4.5 million for the nine-month period.

The Company issued an additional 680,000 shares of Class A Common Stock on November 1, 1991 for total net proceeds of \$10,077,600. The proceeds were used to retire installment debt.

Marquette Electronics, Inc. is a leading manufacturer of medical electronic equipment and systems for the diagnosis and monitoring of patients requiring critical care. The Company is a world market leader in sales of computerized electrocardiographic equipment and related supplies, and is also one of the market leaders in sales of systems used for monitoring of vital patient physiological parameters.

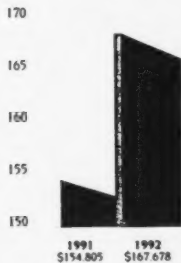


Michael J. Cudahy
President

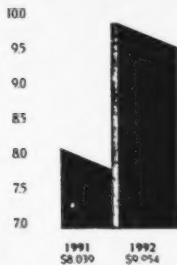


Mary M. Kabacinski
V. President/Treasurer

Net Sales
Nine Months Ended January 31
(Amounts in Millions)



Net Income
Nine Months Ended January 31
(Amounts in Millions)



Consolidated Condensed Balance Sheets
and Notes to Financial Statements (Amounts in Thousands)

BALANCE SHEETS

As of January 31, 1992 (Unaudited)

As of April 30, 1991

ASSETS

Current Assets:

Cash and cash equivalents	\$ 135	\$ 2,148
Accounts receivable, less allowances of \$345 and \$238 respectively	71,096	60,583
Inventories	45,876	42,495
Prepaid expenses and other	3,739	2,513
Deferred income tax benefits	1,402	1,074
Total current assets	123,148	108,813

Property and Equipment, net

Property and Equipment, net	40,439	36,718
Other Assets	10,863	10,261
	<u>\$ 174,450</u>	<u>\$ 155,792</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Notes payable to bank	\$ 3,637	\$ 5,500
Current maturities of long-term debt	1,675	2,884
Accounts payable	14,361	12,985
Accrued liabilities	22,248	16,391
Total current liabilities	41,921	37,760

Long-term Debt, less current maturities

Long-term Debt, less current maturities	13,456	19,814
---	--------	--------

Deferred Income Taxes	2,111	2,402
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Minority Interest	682	728
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Class A Common Stock Under Repurchase Agreements	17,675	13,814
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Shareholders' Equity	<u>98,605</u>	<u>81,274</u>
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	<u>\$ 174,450</u>	<u>\$ 155,792</u>
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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(1) Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of the Company, adequate disclosures have been presented to make the information not misleading, and all adjustments necessary to present fair statements of the results of operations, financial position and cash flows have been included. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements included in Marquette Electronics, Inc.'s Registration Statement on Form S-1.

(2) Inventories

Inventories consist of the following:

	January 31, 1992	April 30, 1991
Raw materials and component parts	\$ 13,305	\$ 10,541
Work in process and finished goods	19,219	19,468
Demonstration Inventory	<u>13,352</u>	<u>12,486</u>
	<u>\$ 45,876</u>	<u>\$ 42,495</u>

(3) Acquisition of Marquette N. Ireland Limited

On May 1, 1991, the Company acquired the remaining 9% of the ordinary shares of Marquette N. Ireland Limited for an aggregate purchase price of \$958, consisting of \$179 in cash and 60,290 shares of Class A Common Stock. This acquisition resulted in additional goodwill of \$620.

(4) Issue of Common Stock

On November 1, 1991, the Company issued 600,000 additional shares of Class A Common Stock and sold the shares as part of an initial public offering for net proceeds of \$10,077. The proceeds were used to retire indebtedness carrying interest at the prime rate.

(5) Stock Repurchase Agreements

Effective with the public offering of its common stock, the Company's obligation to purchase Class A Common Stock under agreements described in Note 10 to the Consolidated Financial Statements included in the Company's Registration Statement on Form S-1 is terminated. The aggregate contingent liability under these agreements at April 30, 1991, was approximately \$11,140.



**marquette
electronics**

8200 West Tower Avenue • Milwaukee, WI 53224 USA
(414) 355-9000 • TEL 297-8601 • FAX (414) 355-1790

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

BEST COPY AVAILABLE

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-19143

Mikron Instrument Company, Inc.

New Jersey
(State or other jurisdiction of incorporation or organization)

22-1895668
(I.R.S. Employer Identification No.)

445 West Main Street, Wyckoff, NJ 07481
(Address of principal executive offices)
(Zip Code)

(201) 891-7330
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 1313 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

Subject to filing requirements since April 17, 1991.

As of January 31, 1992, there were 3,154,200 shares outstanding of the registrant's Common Stock \$.003 par value.

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Corporation
St. Petersburg, FL

MIKRON INSTRUMENT COMPANY, INC.

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MANAGEMENT'S DISCUSSION ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	5
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MIKRON INSTRUMENT COMPANY, INC.

BALANCE SHEET

	<u>January 31 1992</u>	<u>October 31, 1991</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 19,746	\$ 70,988
Short-term certificates of deposit	155,000	200,933
Trade accounts receivable, less allowance for doubtful accounts of \$17,000 in 1992 and 1991	781,840	677,896
Inventories	1,466,584	1,466,713
Prepaid expenses and other current assets	33,666	12,623
TOTAL CURRENT ASSETS	<u>2,456,836</u>	<u>2,429,153</u>
PROPERTY AND EQUIPMENT	<u>91,660</u>	<u>100,360</u>
	<u>\$ 2,548,496</u>	<u>\$ 2,529,513</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 291,920	\$ 257,400
TOTAL CURRENT LIABILITIES	<u>291,920</u>	<u>257,400</u>
STOCKHOLDERS' EQUITY		
Common stock, \$.003 par value; authorized - 15,000,000 shares; issued and outstanding - 3,154,200 shares in 1992 and 1991	10,514	10,514
Additional paid-in capital	2,203,566	2,203,566
Retained Earnings	42,496	58,033
TOTAL STOCKHOLDERS' EQUITY	<u>2,256,576</u>	<u>2,272,113</u>
	<u>\$ 2,548,496</u>	<u>\$ 2,529,513</u>

See notes to financial statements

MIKRON INSTRUMENT COMPANY, INC.

STATEMENT OF OPERATIONS

	Three Months Ended January 31,	
	1992	1991
NET SALES:		
Instruments	\$ 1,151,868	\$ 1,265,717
Repairs	35,709	35,256
	<u>1,187,577</u>	<u>1,300,973</u>
COSTS AND EXPENSES:		
Cost of goods sold	557,874	647,473
Selling, general and administrative	582,293	542,379
Research and development	65,059	67,071
Interest expense	-	2,902
Interest income	(2,112)	(353)
	<u>1,203,114</u>	<u>1,259,472</u>
NET EARNINGS (LOSS)	<u>\$ (15,537)</u>	<u>\$ 41,501</u>
NET EARNINGS (LOSS) PER SHARE	<u>\$ -</u>	<u>\$ 0.01</u>
NET EARNINGS (LOSS) PER SHARE ASSUMING FULL DILUTION	<u>\$ -</u>	<u>\$ 0.01</u>
NUMBER OF SHARES USED IN COMPUTATION:		
Primary	3,154,200	3,270,000
Fully diluted	3,154,200	3,270,000

See notes to financial statements

MIKRON INSTRUMENT COMPANY, INC.

STATEMENT OF CASH FLOWS

	<u>Three Months Ended January 31,</u>	
	<u>1992</u>	<u>1991</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ (15,537)	\$ 41,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	<u>8,700</u>	<u>9,300</u>
	(6,837)	50,801
Changes in assets and liabilities:		
(Increase) decrease in trade accounts receivable	(103,944)	31,880
(Increase) in inventories	129	(68,085)
(Increase) decrease in prepaid and other assets	(21,103)	-
Increase (decrease) in accounts payable and accrued expenses	<u>34,520</u>	<u>(5,849)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(97,235)</u>	<u>8,747</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>0</u>	<u>(2,346)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>0</u>	<u>(2,346)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(97,235)	6,401
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>271,981</u>	<u>23,032</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>174,746</u>	\$ <u>29,433</u>

See notes to financial statements

MIKRON INSTRUMENT COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 31, 1992

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and the results of operations for the interim periods presented.

2. EARNINGS (LOSS) PER SHARE

Per share information is computed based on the weighted average number of shares outstanding during the period.

**ITEM 1. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere herein.

a. Results of Operations

Net sales for the quarter ended January 31, 1992 were \$1,187,577 as compared to net sales of \$1,300,973 for the three months ended January 31, 1991. The decrease is attributable to the general decrease in the demand for all of the Company's products. The cost of sales as a percentage of net sales for the 1992 period was 47% as compared to 49% for the comparable 1990 period.

Selling, general and administrative expenses for the quarter ended January 31, 1992 were \$582,000 as compared to \$542,000 for the same period in 1991. The increase is due to higher expenses, principally advertising, salaries associated with the Company's increasing effort to expand its sales market and legal fees.

b. Liquidity and Capital Resources

The Company's working capital decreased from \$2,172,000 at October 31, 1991 to \$2,165,000 at January 31, 1992. The decrease is attributable to the loss for the quarter.

The Company has no commitments for the use of capital resources. At January 31, 1992, the Company's capital resources and its sources of liquidity were a \$150,000 unused line of credit and a \$155,000 certificate of deposit.

Management does not believe that a return of inflation will have a material adverse effect on the Company's operations because it believes that the Company will be able to increase its selling prices to reflect most increases in its costs.

PART II - OTHER INFORMATION

Item 1 - LEGAL PROCEEDINGS - NONE

Item 2 - CHANGES IN SECURITIES - NONE

Item 3 - DEFAULTS UPON SENIOR SECURITIES - NONE

Item 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS - NONE

Item 5 - OTHER INFORMATION - NONE

Item 6 - EXHIBITS AND REPORTS ON FORM 8-K

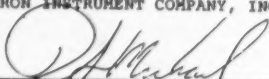
(a) Exhibit No. 11 - Statement re: computation of per share earnings incorporated by reference to statement of income filed as part of this quarterly report on Form 10-Q.

(b) No Form 8-K was filed during the quarter ended January 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

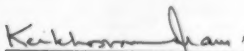
MIKRON INSTRUMENT COMPANY, INC.



Donald S. Michael, President, as
Registrant's duly authorized
officer.



Jacqueline P. Michael, Chief
Financial and Accounting Officer



Keikhosrow Irani, Vice President

020083
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: January 31, 1992

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 0-16399

RAPITECH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

13-3173515

(I.R.S. Employer
Identification No.)

400 Rella Boulevard
Suffern, New York

(Address of principal executive
offices)

10901

(Zip Code)

914-368-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ X NO ☐

As of January 31, 1992, the number of shares outstanding of the Registrant's Preferred Stock, \$.01 par value, was 4,342,009, Common Stock, \$.01 par value, was 6,749,862 and Class A Common Stock, \$.001 par value, was 205,770.

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RAPITECH SYSTEMS, INC.

Form 10-Q

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Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	8
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RAPITECH SYSTEMS, INC.

BALANCE SHEETS

	January 31, 1992	July 31, 1991
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash & cash equivalents	\$ 226,801	\$ 203,733
Accounts receivable	29,884	-
Prepaid expenses	8,849	10,706
Total current assets	265,534	214,439
FIXED ASSETS:		
Machinery and equipment	267,368	253,702
Furniture and fixtures	15,024	15,024
	282,392	268,726
Less: Accumulated depreciation and amortization	251,698	233,467
	30,694	35,259
OTHER ASSETS:		
Deposits	27,281	27,281
TOTAL ASSETS	\$ 323,509	\$ 276,979

The accompanying notes to condensed financial statements are an integral part of these statements.

RAPITECH SYSTEMS, INC.

BALANCE SHEETS

	January 31, 1992	July 31, 1991
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Short term borrowings	\$ 100,000	\$ 107,509
Accounts payable and accrued expenses	317,720	221,403
Deferred income	25,000	-
Total current liabilities	442,720	328,912
OTHER LIABILITIES:		
10% convertible debentures	1,035,000	1,035,000
Deferred rent	134,075	105,917
Total liabilities	1,611,795	1,469,829
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' INVESTMENT		
Preferred stock, \$.01 par value, 5,000,000 shares authorized, 4,342,009 and -0- shares issued and outstanding in January, 1992 and July, 1991 respectively	43,420	-
Common stock, \$.01 par value, 30,000,000 shares authorized, 6,749,862 and 6,507,872 shares issued and outstanding in January, 1992 and July, 1991 respectively	67,498	65,079
Class A common stock, \$.001 par value, 500,000 shares authorized, 205,770 shares issued and outstanding in 1992 and 1991	206	206
Capital in excess of par value	7,270,531	6,619,700
Accumulated deficit	(8,669,941)	(7,877,835)
Total shareholders' investment	(1,288,286)	(1,192,850)
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$ 323,509	\$ 276,979

The accompanying notes to condensed financial statements are an integral part of these statements.

RAPITECH SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Six Months Ended January 31, 1992	January 31, 1991
REVENUES	\$ 132,257	\$ 139,833
OPERATING EXPENSES:		
Selling, general and administrative	384,367	551,612
Customer service and support	484,532	297,808
Amortization of product development costs	-	50,940
Total operating expenses	868,899	900,360
Loss from operations	(736,642)	(760,527)
OTHER INCOME	4,799	154
INTEREST EXPENSE	(60,264)	(91,682)
Net loss	\$(792,107)	\$(852,055)
NET LOSS PER COMMON SHARE	\$(.11)	\$(.16)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	6,955,614	5,368,004

The accompanying notes to condensed financial statements are an integral part of these statements.

RAPITECH SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended January 31, 1992	January 31, 1991
REVENUES	\$ 7,257	\$ 96,500
OPERATING EXPENSES:		
Selling, general and administrative	188,280	324,315
Customer service and support	218,755	154,793
Amortisation of product development costs	-	25,470
Total operating expenses	407,035	504,578
Loss from operations	(399,778)	(408,078)
OTHER INCOME	3,850	-
INTEREST EXPENSE	(30,013)	(86,335)
Net loss	\$(425,941)	\$(494,413)
NET LOSS PER COMMON SHARE	\$(.06)	\$(.09)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	6,955,615	5,544,893

The accompanying notes to condensed financial statements are an integral part of these statements.

RAPITECH SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended January 31, 1992	January 31, 1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(792,107)	\$(852,055)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization	18,232	78,108
Issuance of shares for services rendered and interest	57,861	-
Increase (decrease) in receivables	(29,884)	140,403
(Increase) decrease in prepaid expenses	1,857	(19,485)
Increase in accounts payable and accrued expenses	92,222	67,710
Increase in deferred income	25,000	-
Increase in other liabilities	4,095	3,003
Total adjustments	169,383	269,739
Net cash provided (used) by operating activities	(622,724)	(582,316)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets, net	(13,665)	-
Other	-	339
Net cash provided by investing activities	(13,665)	339

The accompanying notes to condensed financial statements are an integral part of these statements.

	Six Months Ended January 31, 1992	January 31, 1991
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in debt and capital leases	20,649	219,408
Proceeds from the sale and conversion of stock, stock warrants and notes payable	638,809	306,250
Net cash provided from financing activities	659,458	525,658
Net (increase (decrease) in cash and cash equivalents	23,069	(36,319)
CASH AND CASH EQUIVALENTS, beginning of period	203,733	136,137
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 226,802</u>	<u>\$ 79,818</u>
SUPPLEMENTAL DISCLOSURE:		
Interest Paid	<u>\$ 8,514</u>	<u>\$ 11,202</u>

The accompanying notes to condensed financial statements are an integral part of these statements.

RAPITECH SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

(1) General:

The accounting policies followed during the interim periods reported on are in conformity with generally accepted accounting principles and are consistent with those applied for annual periods, as described in the Company's financial statements, as of July 31, 1991 and for the year then ended and notes thereto.

(2) Basis of Presentation:

The condensed financial statements included herein have been prepared by Rapitech Systems, Incorporated (the "Company" or "RSI"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. While certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, the Company believes that the disclosures made herein are adequate to make the information presented not misleading. It is recommended that these financial statements be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual report on Form 10K, for the fiscal year ended July 31, 1991.

In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of January 31, 1992, and the results of its operations and its cash flows for the six and three month periods ended January 31, 1992 and 1991, have been included.

The results of operations for the six month period ended January 31, 1992 are not necessarily indicative of the results to be expected for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The Company had a working capital deficit of \$177,186 as at January 31, 1992, as compared to a working capital deficit of \$114,473 as at July 31, 1991. The decrease in working capital is a result, in part, of the Company's inability to generate increased revenues during the current quarter to offset operating expenses, as discussed below.

The Company's revenues continue to be limited and in an effort to preserve existing working capital, the Company agreed to issue 168,300 shares of its Common Stock to holders of its outstanding 10% Convertible Subordinated Debentures in lieu of the aggregate interest payment of \$52,175.22 due on February 1, 1992. Such shares were valued at the then current market value of the Company's Common Stock which was \$.31 per share.

In order to fund its cash requirements in the near term, the Company may be required to obtain additional equity and/or debt financing. No assurance can be given that the Company will be able to procure additional financing on terms deemed favorable by the Company, if at all. In the event the Company is unable to procure additional financing and, depending upon its then current level of sales, the Company may be forced to curtail its then current level of operations.

Except as described herein, the Company has no material commitment for expenditures of capital resources.

Results of Operations

Six Months Ended January 31, 1992, as compared to
Six Months Ended January 31, 1991

Revenues for the six months ended January 31, 1992, decreased \$7,576 to \$132,257, as compared to \$139,833 for the corresponding period of the prior year. For the six months ended January 31, 1992, total operating expenses decreased \$31,461 (or approximately 3%) to \$868,899 from \$900,360. The reduction in total operating expenses was a result, in part, of the Company not incurring amortization of product development costs in the 1992 period, as compared to the prior year, a decrease in selling, general and administrative expenses of \$167,245 (or approximately 30%), as offset by an increase in customer service and support expenses of \$186,724 (or approximately 63%).

As a consequence of the reduction in total operating expenses, the Company's net loss for the six months ended January 31, 1992 was \$792,107 (\$.11 per share), as compared to \$852,055 (\$.16 per share) for the corresponding period of the prior year.

Three Months Ended January 31, 1992, as compared to
Three Months Ended January 31, 1991

Revenues for the three months ended January 31, 1992, decreased \$89,243 to \$7,257, as compared to \$96,500 for the corresponding period of the prior year. The decrease in revenues was due, in part, to the receipt of revenues by the Company during the three months ending January 31, 1991 in accordance with the agreement entered into by the Company with International Business Machines Corporation ("IBM"). For the three months ended January 31, 1992, total operating expenses decreased \$97,543 (or approximately 19%) to \$407,035 from \$504,578. The reduction in total operating expenses was a result, in part, of the Company not incurring amortization of product development costs in the 1992 period, as compared to the prior year, a decrease in selling, general and administrative expenses of \$136,035 (or approximately 42%), as offset by an increase in customer service and support of \$63,962 (or approximately 41%).

As a consequence of the reduction in total operating expenses, the Company's net loss for the three months ended January 31, 1992 was \$425,941 (\$.06) per share as compared to \$494,413 (\$.09 per share) for the corresponding period of the prior year.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Shareholders of Rapitech Systems, Inc. was held on December 19, 1991. At the Meeting, the following Directors were elected for the term of one year and until their successors are duly elected and qualified: Samuel Sutton, Arthur Rosenthal, Gilbert Klaperman, Leonard W. Jaffe, Morton A. Cohen and E. Donald Shapiro. Arthur Andersen & Co. was also ratified as the independent public accountants of the Company for the fiscal year ended July 31, 1992. 7,346,211 shares were voted for such ratification, 500 against and 3,700 abstained. In addition, shareholders approved at the Meeting an increase in the number of shares underlying the Company's 1986 Stock Option Plan to 1,100,000 shares; an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock to 30,000,000 shares; and to ratify the issuance of 593,200 Warrants to certain persons, including Directors, Officers and employees of the Company. 7,266,233 shares were voted in favor of increasing the number of shares underlying the Company's 1986 Stock Option Plan, 62,334 against and 21,844 abstained. 7,268,233 shares were voted in favor of the amendment to the Company's Certificate of Incorporation, 45,792 against and 36,386 abstained. In addition, 7,265,233 shares were voted in favor of the ratification of the issuance of the Warrants, 48,792 against and 36,386 abstained.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits. None

(b) Reports on Form 8-K. No reports on Form 8-K were filed by the Registrant during the quarter ended January 31, 1992.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAPITECH SYSTEMS, INCORPORATED

(Registrant)

March 12, 1991
(Date)



Arthur Rosenthal, President



SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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Form 10-Q

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QUARTERLY REPORT UNDER SECTIONS 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter January 31, 1992

Commission File No. 33-26798D

RICHMOND CAPITAL CORPORATION

(exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-1104385
(I.R.S. Employer Identification No.)

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Q-Data Corp. - St. Petersburg, FL

168 West Church Street, Woodstock, GA
(Address of principal executive offices)

30188
(Zip Code)

Registrant's telephone number, including area code: (404) 924-4148

Indicate by check mark whether the registrant (1) has filed all reports by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) had been subject to such filing requirements for the past 90 days.

YES [X] NO []

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,305,750 shares of common stock, \$.001 par value, (the issuer's only class of common stock), were outstanding as of March 6, 1992.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

RICHMOND CAPITAL CORPORATION

BALANCE SHEET

	January 31 1992 <u>Unaudited</u>	July 31 1991 <u>Audited</u>
<u>ASSETS</u>		
Current Assets		
Cash	\$ 40,594	\$ 37,167
Accounts Receivable	259,643	219,345
Inventory	<u>5,900</u>	<u>0</u>
Current Assets	\$306,137	\$256,512
Property and Equipment	199,200	189,741
Miscellaneous Assets	<u>60,570</u>	<u>70,266</u>
Total Assets	<u>\$565,907</u>	<u>\$516,519</u>
<u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>		
Accounts payable	\$ 27,700	\$ 33,495
Accrued payables	21,900	31,615
Notes payable	<u>106,700</u>	<u>103,235</u>
Total Liabilities	\$156,300	\$168,345
Shareholder's equity		
Preferred stock - \$.01 per value 1,000,000 shares authorized 250,000 shares issued	\$ 2,500	\$ 2,500
Common stock - \$.001 per value 100,000,000 shares authorized 1,305,750 shares issued and outstanding at January 31, 1992	1,306	2,306
Capital in excess of par value	\$349,841	\$368,841
Retained Earnings	<u>55,960</u>	<u>(75,473)</u>
Total shareholders' equity	409,607	348,174
Total liabilities and shareholders' equity	<u>\$565,907</u>	<u>\$516,519</u>

RICHMOND CAPITAL CORPORATION

STATEMENT OF OPERATIONS
(UNAUDITED)

	Quarter Ended January 31		Year to Date <u>6 months</u>
	<u>1992</u>	<u>1991</u>	
Revenues:			
Sales	306,455	0	612,017
Less Cost of Sales	<u>145,732</u>	<u>0</u>	<u>303,349</u>
Gross Profit	5160,723	0	308,668
Expenses:	<u>90,361</u>	<u>3,152</u>	<u>200,612</u>
Income (loss) before income taxes	70,362	(3,152)	108,056
Provision for income taxes	<u>21,900</u>	<u>0</u>	<u>29,500</u>
Income (loss)	48,462	(3,152)	78,556
Income (loss) per common share	.04	nil	.06
Weighted number of common shares outstanding	1,305,750	1,305,750	1,305,750

RICHMOND CAPITAL CORPORATION

STATEMENT OF CASH FLOWS
(UNAUDITED)
THREE MONTHS ENDED

January 31, 1992

	<u>1992</u>	<u>1991</u>
Cash flows from operating activities		
Net Income	\$ 48,462	(3,152)
Noncash items included in net income		
Loss on Sale of Subsidiary	46,103	0
Net changes in:		
Accounts receivable	(179,600)	0
Inventory	(5,900)	0
Prepaid expenses	(570)	0
Accounts payable and accrued expenses	<u>49,600</u>	<u>0</u>
Net cash provided by operating activities	<u>(41,905)</u>	<u>(3,152)</u>
Cash flows from investing activities		
Purchase of property and equipment	0	0
Cash flow from financing activities		
Stock subscription receivable	75,000	0
Changes in notes payable	7,500	16,152
Capital contributions	<u>0</u>	<u>0</u>
	<u>82,500</u>	<u>16,152</u>
Net increase in cash	40,595	13,000
Cash and equivalents, beginning of period	<u>-</u>	<u>2,000</u>
Cash and equivalents, end of period	<u>\$40,595</u>	<u>\$ 15,000</u>

Item 2. Management's discussion and analysis of financial condition and results of Operations.

Results of Operation

Sales of computers and computer-related equipment resulted in a \$48,462 after-tax profit for the quarter. The company expects to begin its repair and remanufacturing of hard disk drives within the next 12 months.

Liquidity and Capital Resources.

The company has \$306,137 in current assets. This, along with revenue generated from sales, is deemed sufficient to fund operations for the next 12 months.

PART II. OTHER INFORMATION

Item 1 through 3. None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other information.

None

Item 6. Exhibits and Reports on Form 8-K.

(a) None

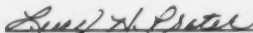
(b) None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RICHMOND CAPITAL CORPORATION
(Registrant)

Date: March 6, 1992


(Principal Financial Officer)
Lucy H. Prater
CFO

RICHMOND CAPITAL CORPORATION
NOTES TO UNAUDITED FINANCIAL STATEMENTS

January 31, 1992

General

The accompanying unaudited financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures made herein are adequate to make the information presented not misleading. In the opinion of management, all adjustments necessary to a fair statement of the results of operations for the periods presented have been made.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934For Quarter Ended March 31, 1992 Commission file number 0-12304

LAKESIDE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Louisiana

72-0931805

(State or other jurisdiction of
incorporation of organization)(I.R.S. Employer
Identification No.)

One Lakeside Plaza

Lake Charles, Louisiana

70601

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (318) 433-2265

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ X

No

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On March 31, 1992 there were 500,000 shares of the Registrant common stock outstanding.

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PART I - FINANCIAL INFORMATION
LAKESIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CONDITION

(Thousands of Dollars)
(Unaudited)
March 31 December 31
1992 1991

ASSETS

Cash and Due From Banks	\$17,894	\$18,942
Federal Funds Sold	9,000	5,800
Cash and Cash Equivalents	26,894	24,742
Investment Securities	65,725	68,118
Loans and Leases - Net of Unearned Income	101,488	103,743
Less: Reserve for Possible Loan and Lease Losses	(2,774)	(2,854)
Net Loans and Leases	98,714	100,889
Premises and Equipment	8,991	8,581
Other Real Estate Owned	1,550	1,763
Other Assets	1,945	1,314
Total Assets	\$203,819	\$205,407
	=====	=====

LIABILITIES

Deposits:		
Noninterest Bearing	\$40,224	\$40,643
Interest Bearing	147,762	148,869
Federal Funds Purchased	0	0
Accrued Interest, Taxes and Other	1,336	1,791
Total Liabilities	189,322	191,303
	-----	-----

SHAREHOLDERS' EQUITY

Common Stock (Par Value \$2.50/Share)	March 31 1992	December 31 1991		
Authorized Shares	500,000	500,000		
Outstanding Shares	500,000	500,000	1,250	1,250
Surplus			2,500	2,500
Treasury Stock (Zero shares as of March 31, 1992 and Zero shares as of December 31, 1991)			0	0
Note Receivable - ESOP			(336)	(336)
Retained Earnings			11,083	10,690
Total Shareholders' Equity			14,497	14,104
Total Liabilities and Shareholders' Equity			\$203,819	\$205,407
			=====	=====

LAKEVIEW BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(Thousands of Dollars, Except Per Share Amounts)

Three Months Ended
March 31
1992 1991

INTEREST INCOME

Loans and Leases	\$2,672	\$3,026
Fed Funds Sold	86	200
Investment Securities:		
Taxable	863	1,013
Non-Taxable	29	39
Other	25	38
Total Interest Income	3,675	4,316

INTEREST EXPENSE

Deposits	1,489	2,182
Other	3	5
Total Interest Expense	1,492	2,187
Net Interest Income	2,183	2,129
Provision for Loan and Lease Losses	150	150
Net Interest Income After Provision for Loan and Lease Losses	2,033	1,979

NONINTEREST INCOME

Trust Income	75	66
Service Charges on Deposits	484	405
Other Noninterest Income	418	213
Total Noninterest Income	977	684

NONINTEREST EXPENSE

Salaries and Employee Benefits	1,209	1,064
Expenses of Premises and Fixed Assets - Net	350	305
Other Noninterest Expense	1,037	913
Total Noninterest Expense	2,596	2,282

INCOME (LOSS) BEFORE INCOME TAXES	414	381
-----------------------------------	-----	-----

INCOME TAXES	20	131
--------------	----	-----

NET INCOME (LOSS)	\$394	\$250
-------------------	-------	-------

PER SHARE AMOUNTS

Net Income (Loss)	\$0.79	\$0.50
Cash Dividends Declared	\$0.00	\$0.00

LAKESIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Thousands of Dollars)

Three Months Ended
March 31
1992 1991

Operating Activities

Net Income	\$394	\$250
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	150	150
Depreciation	179	159
Amortization (Accretion)		
of Investment Security Premiums (Discounts)	(789)	(54)
Deferred Income Taxes	1	1
(Gains) Losses on Securities Transactions	0	0
(Increase) Decrease in Interest Receivable	(42)	(266)
Net Change in Other Assets	(390)	(952)
Increase (Decrease) in Interest Payable	(205)	(520)
Net Change in Other Liabilities	(251)	208
Other Noncash Expenses	12	(6)
Net Cash Provided by Operating Activities	(941)	(1,039)

Investing Activities

Proceeds from Sales of Investment Securities	0	0
Proceeds from Maturities of Investment Securities	19,918	17,188
Purchases of Investment Securities	(16,735)	(19,671)
Net (Increase) Decrease in Credit Card Loans	303	259
Net (Increase) Decrease in Loans	1,722	1,319
Principal Payments Received Under Leveraged Leases	0	0
Purchases of Premises and Equipment	(589)	(149)
Net Cash Used By Investing Activities	4,519	(1,054)

Financing Activities

Net Increase (Decrease) in Noninterest Bearing Deposits, NOW Accounts, and Savings Accounts	5,107	(1)
Net Increase (Decrease) in Certificates of Deposit	(6,633)	(2,180)
Increase (Decrease) in Federal Funds Purchased	0	0
Principal Payments on Long Term Debt	0	0
(Acquisition) Disposition of Treasury Stock	0	0
Cash Dividends	0	0
Net Cash Provided by Financing Activities	(1,526)	(2,181)

Increase (Decrease) in Cash and Cash Equivalents	2,152	(4,265)
Cash and Cash Equivalents at Beginning of Year	24,742	29,950
Cash and Cash Equivalents YTD	\$26,894	\$25,685
	=====	=====

LAKESIDE BANCSHARES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY and CAPITAL RESOURCES

The company and its subsidiary bank continued to maintain an adequate liquidity position during the first quarter of 1992. At March 31, 1992, \$54 million of securities maturing within the next 12 months, along with \$26.7 million in cash and cash equivalents were on hand to meet liquidity needs.

Loan levels have experienced a decline of approximately \$2 million during the first quarter of 1992, due mainly to the sale of \$1.6 million in student loans. The deposit level has declined approximately \$1.5 million in the same period. The relationship between the sources and applications of funds was somewhat flat during the first quarter, with uses of funds exceeding sources. With only relatively minor applications of capital resources made during the first quarter of 1992, our liquidity position remains in excellent condition.

RESULTS OF OPERATIONS

Net income for the first quarter of 1992 was at \$394,000, an increase of \$144,000, compared to an increase of \$3,148,000 in the first quarter of 1990.

Net interest income increased \$54,000 (3%) during the first quarter of 1992 compared to an increase of \$127,000 during the first quarter of 1991. Lower interest rates resulting in lower cost of funds is responsible for the major portion of this increase.

The provision for loan losses was at \$150,000 for the three months ending March 31, 1992. At the end of March 1991, the provision was also \$150,000. The Bank evaluates the allowance for loan losses on a monthly basis, with additions to the provision made when necessary.

Net overhead was up \$21,000 (1%) in the first quarter of 1992, when compared to a decrease of \$155,000 in the first quarter of 1991. Increases in service charges and recognition of deferred gains on the sale of OREO were offset by increased salaries and FDIC insurance premiums to account for the current increase in net overhead. There are continued efforts to hold normal operating costs as low as possible.

At the subsidiary level, the Boards of Directors of LNB Realty Company, Inc., and Lakeside National Bank have elected to liquidate the Realty Company, with all attempts to be made to preserve the name of the Realty Company. The liquidation will be essentially an accounting process, with all of the assets and liabilities of the Realty Company being placed on the books of the Bank. This liquidation will eliminate some \$13,000 in state franchise taxes on an annual basis. The books of LNB Realty Company, Inc. were officially closed on April 30, 1992.

Item 1. Legal Proceedings

While Lakeside Bancshares, Inc. and its subsidiaries are from time to time parties to various legal proceedings arising in the ordinary course of business, management, subject to the uncertainties inherent in any litigation, believes there is no proceeding threatened or pending against Lakeside Bancshares, Inc. and/or its subsidiaries other than disclosed herein that is reasonably likely to result in a material adverse change in the business, financial condition or financial operations of the Holding Company or its subsidiaries.

At periodic intervals, OCC examiners routinely examine the Bank's financial statements as part of their legally prescribed oversight of the Banking industry. Based on these examinations, the regulators can request that the Bank's financial statements be adjusted in accordance with their findings. In view of FIRREA, the FDIC Improvement Act of 1991, and the increasingly uncertain regulatory environment in which the Bank now operates, the extent, if any, to which a forthcoming regulatory examination may ultimately result in adjustments to the financial statements cannot presently be determined.

Regulatory Matters

During 1990, the Comptroller of the Currency ("OCC") issued a Notice of Charges ("Notice") to Lakeside National Bank ("Bank"). A hearing before an Administrative Law Judge ("ALJ") to determine the validity of the OCC charges was held on May 20-23, 1991.

On or about November 20, 1991, the ALJ recommended that the Bank institute certain remedial measures. The OCC and the Bank filed a Notice of Appeal to the ALJ's Recommended Order. The Appeal, by law, was taken directly to the Comptroller of the Currency.

On or about May 8, 1992, the OCC ordered the Bank to institute certain remedial measures, many of which have already been instituted by Bank management as follows:

- (i) The appointment of a committee responsible for monitoring and coordinating the Bank's adherence to the provisions of the ALJ order;
- (ii) The employment of an independent outside management consultant;
- (iii) The Bank shall submit any proposed employment or severance contracts with any members of senior management to the OCC for prior review and approval, and prior to honoring any existing employment or severance contracts with members of senior management, such proposed action shall be submitted to the OCC for review and approval;

- (iv) Adoption and implementation of a written program to protect the Bank's interest with regard to classified assets. Such program would include an identification of expected sources of repayment, the appraised value of supporting collateral, determination of the Bank's lien position on collateral and an analysis of current credit information;
- (v) Establishment of a review system to periodically review the Bank's asset portfolios to identify and otherwise remedy or resolve problem assets;
- (vi) Development and implementation of a written program and written loan policy to improve the Bank's loan administration. Such program and policies would include procedures to ensure satisfactory and perfected collateral documents, to obtain and analyze credit information and a description of acceptable loan types, credit information, collection procedures and pricing policies;
- (vii) A prohibition on the Bank in making or extending any loan to a borrower whose loan is currently classified or otherwise extending credit unless such action is in conformity with the Bank's loan policies and procedures;
- (viii) A required review by the Board of the adequacy of the Bank's allowance for loan and lease losses and the establishment of a program for the maintenance of an adequate allowance. Such a review and program might include a periodic internal loan review paying particular attention to a borrower's loan loss experience and credit information, estimating the potential loss exposure on each significant credit and consideration of credit concentrations and economic conditions;
- (ix) The required development, implementation, revision and adherence to written liquidity, asset and liability management and other real estate policies, and otherwise taking steps necessary to correct perceived violations of any rules or regulations which may be cited by the OCC;
- (x) The Board shall develop a three (3) year capital program to include maintenance of adequate capital, projections for growth and capital requirements, and a dividend policy permits declaration of dividends only when the Bank is in compliance with its capital program and with prior approval of the OCC;
- (xi) The Bank's Board shall ensure appropriate implementation of policies and procedures developed for the trust department and corrective action concerning the System and Programming activities in the Electronic Data Processing function. The Board shall also develop and implement an appropriate independent internal audit program.

The Bank's Board of Directors responded to the OCC concerns prior to issuance of the initial Notice. In response to the OCC's March 30, 1990 Report of Supervisory Activity, a committee to respond to the OCC's concerns was appointed by the Board on October 4, 1990. New policies and programs necessary for the protection of Bank's assets, future capital needs and compliance with regulatory rules and procedures have already been developed and implemented. Measures necessary to adequately monitor the Bank's compliance with such policies and programs have also been instituted.

In particular, the loan procedures have been revised, restructured and strengthened to require current credit information, proper collateral documentation and other information necessary to make a sound lending decision. Appointed committees and bank employees periodically review the asset portfolios to determine the safety and soundness of assets and to otherwise ensure the adequacy of the reserve for loan and other asset losses. Access to electronic data processing ("EDP") files is limited and an independent auditor specializing in EDP matters was hired to review EDP policies and procedures and to recommend to management procedures for improving EDP administration. The trust department has employed additional staff to better service accounts. Management monitors interest rate movements, economic conditions and other factors necessary to profitably manage the Bank.

The Board of Directors of the Bank is weighing its option to appeal the OCC Order.

Shareholder Matters

On or about May 24, 1991, a petition was filed on behalf of Lakeside National Bank of Lake Charles (the "Bank") in the 14th Judicial District Court (the "Court"), Parish of Calcasieu, State of Louisiana. In the petition, the Bank alleges that pursuant to an agreement (the "Agreement") between the Bank and members of the Chavanne family (the "Defendants"), the Board of Lakeside Bancshares, Inc. ("Company") would be composed of the same number and persons as the Board of the Bank. The petition further alleges that by actions taken, the Defendants have and continue to breach the Agreement.

On or about June 28, 1991, the Defendants filed a formal response (the "Response") to the petition with the Court. In the Response the Defendants allege that the Agreement is illegal and void as against public policy and does not meet the requirements of the Louisiana Business Corporation Law. Because the petition seeks to enforce an illegal agreement which fails to comply with the requirements of the Louisiana Business Corporation Law, the Response alleges that the petition states no cause of action and must be dismissed. The court has taken the matter under advisement and no decision has been made.

Should an injunction be granted by the Court restraining and prohibiting Defendants from engaging in acts contrary to the Agreement, the outcome of a vote of stockholders to elect directors of the Company at an Annual Meeting of Stockholders could be materially altered.

On September 4, 1991, Plaintiffs, Harry J. Chavanne and Mary Ellen Chavanne, in her capacity as Trustee of the Chavanne Family's Lakeside Bancshares, Inc. Voting Trust and Stock Restriction Agreement, filed a Complaint for Declaratory and Injunctive Relief and for Damages in the U.S. District Court for the Western District of Louisiana, Lake Charles Division, under Docket No. CV 91-1909-LC. The Complaint names Lakeside Bancshares, Inc., all its inside Directors and Officers, all but one of its outside Directors, and four officers of Lakeside National Bank as Defendants. The lawsuit is styled as a shareholders derivative action, on behalf of the named Plaintiffs and purportedly, on behalf of all other shareholders, alleging that the Defendants participated in and are continuing to participate in individual and/or concerted activity constituting a breach of their fiduciary duties as Officers and/or Directors of Lakeside Bancshares, Inc., and its subsidiary and principal asset, Lakeside National Bank of Lake Charles.

More particularly, the Complaint alleges that the Defendants have not administered the affairs of Lakeside Bancshares in a careful and prudent manner and that Defendants' actions were intentionally undertaken for the purpose of frustrating and preventing the Chavannes and other unnamed shareholders from exercising their rights.

The Complaint seeks the following remedies: injunctive relief to avoid implementation of the certain executive officer employment contracts and by-law provisions; a declaratory judgment declaring the employment contracts, as amended (which have already been rescinded by management), and the treasury stock sale to the ESOP void and of no effect; and damages in an as yet undetermined amount, speculated to be in excess of \$15 million. The Complaint also seeks recovery of attorney fees.

The Defendants have carefully reviewed the allegations of said Complaint and believe there is no merit to any of the subject allegations nor any valid legal cause for the relief requested, and Defendants intend to vigorously seek dismissal of the claims against them.

The Defendants further believe the Complaint was filed by the Chavanne family in further response to the petition filed on or about May 24, 1991, on behalf of Lakeside National Bank of Lake Charles (the "Bank") against members of the Chavanne Family in the 14th Judicial District Court (the "Court"), Parish of Calcasieu, State of Louisiana alleging that members of the Chavanne Family are attempting to breach a certain agreement which allegedly requires the Board of Lakeside Bancshares, Inc. to be composed of the same number and persons as the Board of the Bank.

Item 6. Reports on Form 8-K

No current report on Form 8-K, was filed during the first quarter of 1992.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LAKEVIEW BANCSHARES, INC.
(Registrant)



H. D. Martin, Treasurer

Date: May 14, 1992

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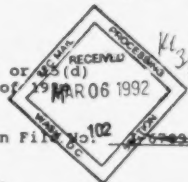
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934



For Quarter Ended January 31, 1992 Commission File No: 102-2243-996 C-6119

TRI-VALLEY CORPORATION

Delaware 84-0617433
(State or Other Jurisdiction of (I.R.S. Employer Identification
I.R.S. Employer) Number)

2001 Westwind Drive, Suite 14, Bakersfield, California 93301
(Address of Principal Executive Offices)

Registrant's Telephone Number Including Area Code: (805) 323-9626

(Former Name, Former Address and Former Fiscal Year,
If Changed Since Last Report)

Outstanding Common Stock: 6,439,677 Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements in the past 90 days.

X Yes No

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TRI-VALLEY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS

	<u>January 31, 1992</u> (unaudited)	<u>July 31, 1991</u>
CURRENT ASSETS		
Cash	\$ 1,659,262	\$ 493,165
Accounts receivable:		
Tosco/NGC	1,241,171	
Trade	589,872	773,613
Advances to joint		
venture participants	16,703	28,595
Prepaid expenses	<u>22,054</u>	<u>17,282</u>
Total Current Assets	<u>3,529,062</u>	<u>1,312,655</u>
PROPERTY AND EQUIPMENT, AT COST		
	1,399,721	1,165,803
Less accumulated depletion, depreciation and amortization	<u>104,182</u>	<u>102,591</u>
	<u>1,295,539</u>	<u>1,063,212</u>
OTHER ASSETS		
Deposits	80,241	110,241
Investments in partnerships	<7,734>	<7,734>
Goodwill (net of accumulated amortization of \$113,884 at January 31, 1992 and \$108,460 at July, 1991)	<u>319,969</u>	<u>325,393</u>
	<u>392,476</u>	<u>427,900</u>
	<u>\$ 5,217,077</u>	<u>\$2,803,767</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	January 31, 1992 (unaudited)	July 31, 1991
CURRENT LIABILITIES		
Notes and contracts payable	\$ 46,910	\$ 75,560
Trade accounts payable	74,508	58,678
Amounts payable to joint venture participants and related parties	2,856,208	683,839
Advances from joint venture partnerships	643,649	784,651
Accrued expenses	55,497	65,750
Other liabilities	<u>25,462</u>	<u>17,389</u>
Total Current Liabilities	<u>3,702,241</u>	<u>1,685,867</u>
LONG-TERM PORTION OF CONTRACTS PAYABLE		
	<u>19,000</u>	<u>31,000</u>
STOCKHOLDERS' EQUITY		
Common stock subscribed		
Common stock - \$0.01 par value,		
Authorized - 15,000,000 shares,		
Issued and outstanding:		
6,439,677 shares - January		
6,429,677 shares - July	64,397	64,297
Capital in excess of par value	2,930,239	2,924,839
Accumulated deficit	<u><1,498,800></u>	<u><1,902,236></u>
	1,495,836	1,086,900
	<u>\$5,217,077</u>	<u>\$ 2,803,767</u>

The accompanying notes are an integral part of these condensed financial statements.

TRI-VALLEY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended January 31,		Six Months Ended January 31,	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
REVENUES				
Royalty/working interest income	\$ 333,789	\$ 79,077	\$ 585,274	\$ 175,348
Sale of oil and gas prospects	69,480	25,700	69,480	104,315
Sale of Precious Metals			38,272	
Other income	1,650	750	5,500	1,500
Interest income	<u>1,790</u>	<u>2,301</u>	<u>7,406</u>	<u>5,702</u>
	<u>408,709</u>	<u>107,828</u>	<u>705,922</u>	<u>286,865</u>
COSTS AND EXPENSES				
Mining Expense			4,546	
Mining Lease Expense		22,482		32,482
Leases sold, relinquished and impaired	26,680		26,680	
Oil & Gas Lease Expense	8,246	4,802	21,638	62,893
Depletion, depreciation and amortization	8,824	4,908	17,648	9,816
General and administrative	<u>137,161</u>	<u>88,631</u>	<u>231,984</u>	<u>177,058</u>
	<u>180,911</u>	<u>120,823</u>	<u>302,496</u>	<u>282,249</u>
INCOME <LOSS> BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	227,798	<12,995>	403,436	4,616
INCOME TAXES				
INCOME <LOSS> BEFORE EXTRAORDINARY ITEM	<u>227,798</u>	<u><12,995></u>	<u>403,436</u>	<u>4,616</u>
EXTRAORDINARY ITEM - TAX BENEFIT FROM NET OPERATING LOSS CARRYFORWARD				
NET INCOME <LOSS>	<u>\$ 227,798</u>	<u>\$ <12,995></u>	<u>\$ 403,436</u>	<u>\$ 4,616</u>
NET INCOME <LOSS> PER COMMON SHARE	<u>\$.04</u>	<u>\$ <0.002></u>	<u>\$.06</u>	<u>\$.001</u>
WEIGHTED AVERAGE NUMBER OF SHARES	<u>6,439,677</u>	<u>6,271,021</u>	<u>6,439,677</u>	<u>6,185,423</u>

The accompanying notes are an integral part of these condensed financial statements.

TRI-VALLEY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Six Months Ended January 31,
1992 1991

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income <loss>	\$ 403,436	\$ 4,616
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	7,015	9,816
<Increase> decrease in accounts receivable	<1,057,430>	<164,809>
Decrease <increase> in advances to joint venture participants	11,892	<42,523>
Decrease <increase> in prepaid expenses	<4,772>	<10,794>
Decrease <increase> in deposits	30,000	
Increase <decrease> in trade accounts payable	<34,083>	<26,024>
Increase in amounts payable to joint venture participants and related parties	2,172,369	193,350
<Decrease> increase in advances from joint venture participants	<141,002>	<225,903>
<Decrease> increase in accrued expenses	<10,253>	9,220
<Decrease> increase in other liabilities	<u>8,080</u>	<u>48,419</u>
Net cash provided (used) by operating activities	<u>1,385,252</u>	<u><204,632></u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures	<u><233,918></u>	<u><199,355></u>
Net cash used in investing activities	<u><233,918></u>	<u><199,355></u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on long-term debt	<12,000>	<10,446>
Proceeds from issuance of common stock	5,500	213,201
Proceeds from issuance of debt	<u>21,261</u>	<u> </u>
Net cash provided by financing activities	<u>14,761</u>	<u>202,755</u>

NET INCREASE <DECREASE> IN CASH AND CASH EQUIVALENTS	1,166,097	<201,232>
--	-----------	-----------

CASH AND CASH EQUIVALENTS AT AUGUST 1, 1991	<u>493,165</u>	<u>251,235</u>
---	----------------	----------------

CASH AND CASH EQUIVALENTS AT JANUARY 31, 1992	<u>\$1,659,262</u>	<u>\$ 50,003</u>
---	--------------------	------------------

The accompanying notes are an integral part of these condensed financial statements.

TRI-VALLEY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1992

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ending January 31, 1992 are not necessarily indicative of the results that may be expected for the year ended July 31, 1992. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report Form 10-K for the year ended July 31, 1991.

FINANCIAL CONDITION

Continued strong natural gas production revenues along with some sales of gold resulted in record revenues and net income for the first six months of \$705,932 and \$403,436 respectively. This compares to \$286,865 and \$4,616 respectively for the same period a year earlier.

Assets rose from \$1,581,262 to \$5,217,077 and stockholder equity increased from \$942,438 to \$1,495,836 from the year previous for the first six months ending January 31.

The Board of Directors and management reviewed finances, operations and plans in great detail at meetings on October 12, 1991 and February 7, 1992. They directed the company continue its policy of investment in petroleum prospect generation, packaging selling and drilling same in return for prospect fees and carried working interests with review on a prospect by prospect basis as to whether or not the company should consider additional non carried working interest. Further, they directed that the Company complete technical packaging of its mining properties and seek joint venture partners to help exploit them although it was recognized the properties contain some shallow zones suitable for the Company to test itself.

TRI-VALLEY OIL & GAS COMPANY (TVOG, a wholly owned subsidiary).

Operated production in the first half rose to about 19 million cubic feet per day catapulting TVOG to seventh place among 185 California dry gas producers. Winter season high gas prices enabled TVOG operated production to gross \$6,916,201 for the first six months ending January 31, 1992.

TVOG expects some decline due to seasonal price reductions through the summer as well as some production curtailments for the period. Otherwise the Company should remain profitable through the second half and beyond.

In the second half, TVOG expects to drill one offset to existing production and one new zone test well on the Piper Slough acreage. Also, TVOG expects to drill its deep wildcat north of Tracy California with an initial reserve target of 160 billion cubic feet of gas. Even partial success on these wells would benefit the Company exponentially.

PRECIOUS METAL ACTIVITIES

Results of the 1991 joint scientific research project with TsNIGRI on Tri-Valley's Richardson, Alaska gold claims were delivered in December by the TsNIGRI director and his lead scientists from Moscow. They were extremely encouraging.

Several gold bearing zones were delineated and a prognostic resource of over 1 million recoverable ounces was forecast. This is not yet in the category of proven reserves and the Company expects to conduct further testing with TsNIGRI to upgrade the reliability of the estimate. However, management has previously advised shareholders that 100,000 ounces net to Tri-Valley's account at \$350/ounce would approximate \$5.00 per share of gross value in the ground. As a result of the extensive data now accumulated, management is encouraged that this potential is substantially closer and hopes to achieve definition of a portion this calendar year.

The Company is planning additional investigation this summer with TsNIGRI to further define the gold bearing zones delineated in 1991 and may possibly drill some of the shallow targets in an effort to prove up reserves. Also, TVC/TsNIGRI investigation will begin on approximately 23 square miles of claims in the Central-Circle Mining District 125 miles northeast of Fairbanks and the Rampart Mining District south of the Yukon River.

TVC is now presenting its data packages under confidentiality agreements to major mining companies to attract a joint venture partner to explore and exploit the larger property.

TRI-VALLEY CORPORATION

FORM 10-Q

JANUARY 31, 1992

PART II

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM S-K

(a) Exhibits: none required.

(b) Reports on Form S-K: none filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TRI-VALLEY CORPORATION
(Registrant)

Date: March 3, 1992

By: F. Lynn Blystone
(Signature)
F. Lynn Blystone
President and Chief Executive
Officer and Director

Date: March 3, 1992

By: Helen L. O'Brien
(Signature)
Helen L. O'Brien
Secretary/Treasurer

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended January 31, 1992

Commission File Number 33-8066-D

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TSUNAMI CAPITAL CORPORATION

COLORADO

(State or other jurisdiction of
incorporation or organization)

84-1031657

I.R.S. Employer
Identification Number

11811 N. Tatum - Suite 4040, Phoenix, Arizona
(Address of principal executive offices)

85028
(Zip Code)

(602) 953-7980

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock No Par Value- 8,380,000 shares March 13, 1992.

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TSUNAMI CAPITAL CORPORATION AND SUBSIDIARY

Page No.

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financial condition - January 31, 1992
and October 31, 1991

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Condensed consolidated statements of
income - three month periods ended
January 31, 1992 and January 31, 1991

2

Statement of changes in consolidated
Stockholders' Equity for the period
November 1, 1990 - January 31, 1992

3

Statements of consolidated cash flows
for the three month periods ended
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Part II. Other Information

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TSUNAMI CAPITAL CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(\$,000 omitted)

	January 31, 1992 (unaudited)	October 31, 1991 (*)
ASSETS		
Cash	\$ 587	\$ 370
Deposit with clearing company	250	-
Money market funds	700	-
Accounts Receivable	1,443	357
Securities owned-at market	265	978
Prepaid Expenses	1	4
Deposits and Miscellaneous Assets	11	37
Furniture and equipment-at cost (net of accumulated depreciation of \$ 34 and \$ 29)	21	17
TOTAL ASSETS	3,278 =====	1,763 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Securities Sold Short	483	-
Accounts Payable	76	34
Accrued Expenses	1,439	742
TOTAL LIABILITIES	1,998	776
STOCKHOLDERS' EQUITY		
Common stock-no par value- 200,000,000 shares authorized- Issued and outstanding: 8,337,492 shares (Note 1)	167	167
Retained earnings	1,113	820
TOTAL STOCKHOLDERS' EQUITY	1,280 -----	987 -----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	3,278 =====	1,763 =====

(*) Condensed from audited financial statements.

The accompanying notes are an integral part of the financial statements.

TSUNAMI CAPITAL CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(\$,000 omitted except per share amounts)

	Three Months Ended January 31,	
	1992	1991
Revenues	\$ 1,991	395
Costs and expenses	1,504	444
Operating income	487	(49)
Other Income	12	6
Income (loss) before Income Taxes	499	(43)
Provision for (reduction in) Income Taxes	206	(9)
Net Income (loss)	293	(34)
	=====	=====
Net Income (loss) Per Share (A)	0.035	(0.004)
	=====	=====
Weighted average number of shares outstanding (A)	8,337,492	8,337,492
	=====	=====

(A) As adjusted for a combination of shares resulting in a one-for-ten "reverse split" of the outstanding common stock effective January 29, 1988.

The accompanying notes are an integral part of the financial statements.

TSUNAMI CAPITAL CORPORATION AND SUBSIDIARY
STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY
For the Period November 1, 1990 through January 31, 1992
(unaudited, \$,000 omitted)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total Stockholders Equity</u>
	<u>Shares Issued</u>	<u>Amount</u>	<u>Shares Issued</u>	<u>Amount</u>		
Balance -						
October 31, 1990	-	-	8,337,492	\$167	\$337	\$504
Dividends Declared on Common Stock						
December 4, 1990	-	-	-	-	(125)	(125)
Net Income for the year ended						
Oct. 31, 1991	-	-	-	-	608	608
Balance -						
Oct. 31, 1991	-	-	8,337,492	167	820	987
Net income for the three months ended						
January 31, 1992	-	-	-	-	293	293
Balance -						
January 31, 1992	-	-	8,337,492	167	1,113	1,280
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements

Tsunami Capital Corporation and Subsidiary
CONSOLIDATED STATEMENT OF CASH FLOWS
(\$,000 omitted)

Three Months Ended Jan 31,
1997 1991

Cash Flows from Operating Activities

Cash collected from clearing company and other commissions	1,963	387
Interest Received	13	4
Other operating cash receipts	0	1
Cash paid to employees and suppliers of other goods and services	(1,557)	(406)
Income taxes paid	(13)	20
Net cash from operating activities	<u>406</u>	<u>6</u>

Cash Flows from Investing Activities

Purchase of investment securities	(29)	(1)
Purchase of office equipment	(10)	(3)
Net cash from investing activities	<u>(39)</u>	<u>(4)</u>

Cash Flows from Financing Activities

Payment of cash dividends	0	(125)
Net cash from financing activities	<u>0</u>	<u>(125)</u>

Net increase (decrease) in cash	367	(123)
Cash - beginning of period	<u>1,170</u>	<u>293</u>

Cash - end of period	1,537	170
	=====	=====

Reconciliation of net income to net cash from operating activities:

Net Income (loss)	293	(34)
-------------------	-----	------

Effects of deferrals and accruals on operating receipts and payments:

Decrease (Increase) in receivables	(1,085)	(123)
Decrease (Increase) in inventories	411	20
Decrease (Increase) in prepaid exp.	4	12
Increase (Decr) in accounts payable	42	29
Increase (Decr) in accrued expenses	721	81

Effects of items whose cash effects are investing or financing cash flows:

Depreciation and amortization	8	3
Unrealized loss on investments	15	17
Loss (Gain) on sale of investments	<u>1</u>	<u>1</u>
Net cash from operating activities	<u>406</u>	<u>6</u>
	=====	=====

For purposes of this report, money market funds and deposits with clearing organizations are considered cash equivalents.

The accompanying notes are an integral part of the financial statements.

TSUNAMI CAPITAL CORPORATION
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 1992 (unaudited)

NOTE 1: Accounting Policies

On August 13, 1987, the Company acquired all of the outstanding common stock of Paradise Valley Securities, Inc. (Paradise). This transaction was accounted for as a purchase. Consequently, Paradise is a wholly owned subsidiary of the Company. The assets and liabilities, results of operations, and cash flows of Paradise since August 13, 1987 are included in the consolidated financial statements.

Virtually all of the Company's operations are currently conducted by Paradise.

Paradise is a licensed securities broker-dealer whose transactions with customers consist exclusively of acting as an introducing broker-dealer to a clearing broker-dealer on a fully disclosed basis. Paradise transmits all customer funds and securities to the clearing broker-dealer, who, in turn, carries the accounts of such customers.

Securities transactions and related commission revenue and expense are recorded on a settlement date basis, generally the fifth business day following the transaction date. Securities owned by Paradise and the Company are valued at prevailing market prices.

All furniture, equipment, and leasehold improvements are recorded at cost and are being depreciated over their estimated useful lives. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in current income. Repairs and maintenance charges which do not increase the useful lives of the assets are charged to income as incurred.

Organization expense was amortized over a period of sixty months.

On January 15, 1988, the shareholders approved an amendment to the articles of incorporation in order to effect a combination of shares resulting in a one-for-ten "reverse split" of the outstanding common stock effective January 29, 1988.

TSUNAMI CAPITAL CORPORATION
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)
January 31, 1992 (unaudited)

NOTE 2: Net Capital

Pursuant to the net capital provision of Rule 15c3-1 of the Securities Exchange Act of 1934, Paradise is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

On January 31, 1992 Paradise had net capital and net capital requirements of \$ 973,000 and \$ 94,000 respectively. Paradise' ratio of aggregate indebtedness to net capital was 1.46 to 1.

NOTE 3: Income Taxes

The Company files consolidated tax returns. Paradise reimburses the Company for income taxes as if Paradise were filing its own separate return.

NOTE 4: Commitments and Contingencies

Paradise and the Company have entered into a lease agreement for office space with an unrelated third party. Future minimum lease payments are as follows:

Fiscal year ended Oct 31, 1992	29,000
Fiscal year ended Oct 31, 1993	53,000
Fiscal year ended Oct 31, 1994	27,000

Total	109,000

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

Virtually all of the Company's operations are conducted by its wholly owned subsidiary, Paradise Valley Securities, Inc. (Paradise), a registered securities broker-dealer. Paradise commenced operations on July 1, 1987. Paradise was acquired by the Company on August 13, 1987.

RESULTS OF OPERATIONS

The quarter being reported on includes a time of continued vigorous activity in the securities markets as compared to the same period in the prior year. Company revenues increased over five hundred percent on a year-to-year basis due, in general, to the level of market activity and in particular to interest by the financial community in a number of securities in connection with which the Company had previously acted as an underwriter. The turnaround in operating income, \$487,000 compared to a loss of \$49,000 during the same period last year, is primarily a result of these increased revenues, with marginal and fixed operating costs remaining at the same approximate levels.

LIQUIDITY AND CAPITAL RESOURCES

The current levels of revenues and capital resources of Paradise are believed by management to be adequate to meet the operating expenses of Paradise and the Company as they are now conducted and as they are contemplated to be conducted. Capital resources are not, however, adequate to permit any "firm" underwritings in excess of \$ 5,000,000. To participate in a "firm" underwriting in excess of that amount, Paradise would be required to borrow, on a temporary basis, funds required for each transaction. Such loans are on a subordinated basis and are unsecured, bearing interest at prevailing rates.

Management believes that the amount of capital now available and expected to be available through such borrowing is expected to limit Paradise' participation in any "firm" underwriting to a maximum of approximately \$ 7,000,000. There is no limitation on the size of best-efforts underwritings.

The amount of cash available to the Company remains adequate to meet the its operational needs. As of January 31, 1992, the Company's cash balance (including cash equivalents) of \$1,537,000 represents approximately forty-seven percent of total assets.

Item 4 - Submission of matters to a vote of the Security Holders
None.

Part II - Other information

Item 5 - Other Information

On February 26, 1992, the Board of Directors declared a special cash dividend of three cents per common share, payable April 1, 1992 to holders of record March 12, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

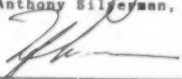
TSUNAMI CAPITAL CORPORATION

Date: March 16, 1992

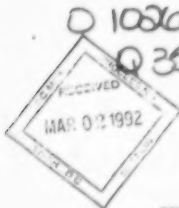


Anthony Silverman, President

Date: March 13, 1992



Michael E. Jacobson, Treasurer



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FORM 10-0

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended: January 31, 1992

Commission File Number: 8-9444

UNIVERSAL CERAMICS, INC

(Exact name of registrant as specified in its charter)

GEORGIA

(State or other jurisdiction
of incorporation or organization)

50-0267097

(I.R.B. Employer
Identification No)

P.O. Box 469, Adairsville, Georgia 30103

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes(✓) No()

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes() No()

APPLICATION ONLY TO CORPORATE ISSUERS:

As of January 31, 1992 5,235,069 shares of Common Stock, \$0.05 par value, of Registrant were outstanding.

UNIVERSAL CERAMICS, INC.

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Part I-Financial Information	Page
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Statement of Cash Flow Three Months Ended Jan. 31, 1992 and 1991.....	7
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Part II-Other Information.....	10-11

UNIVERSAL CERAMICS, INC.
BALANCE SHEET

	January 31, 1992 (unaudited)	July 31, 1991 (audited)
ASSETS		
Current assets		
Cash-		
On hand and unrestricted demand deposits	\$ 9,330	12,957
Accounts receivable-		
Trade, net of allowances for uncollectable accounts of \$17,000 in 1991 and \$28,000 in 1990.	107,961	85,443
Inventories	439,926	523,468
Prepaid Expenses	12,499	16,587
Total Current Assets	569,716	638,455
Property, plant and equipment-pledged		
Land	34,602	34,602
Buildings	403,364	403,364
Machinery and Equipment	1,024,279	1,019,885
Machinery - capital leases	566,191	566,191
Furniture and fixtures	24,692	24,691
Vehicles	30,452	30,452
Total	2,083,580	2,079,185
Less accumulated depreciation	1,509,675	1,458,997
Shale mine net of depletion	573,905	620,188
	12,286	12,586
Total property, plant and equipment	586,191	632,774
Other assets-		
Deferred loan costs	652	678
Deposits	160	160
Salary Advances	1,055	3,250
	1,867	4,088
Total Assets	1,157,774	1,275,317

UNIVERSAL CERAMICS, INC.

BALANCE SHEET (Cont'd)

	January 31 1992 (unaudited)	July 31 1991 (audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short term borrowings	100,000	106,606
Current maturities of long-term debt	175,486	201,380
Notes payable to former director	17,000	17,000
Current Maturities of note payable to shareholder	8,114	15,758
Accounts Payable		
Trade	131,503	112,463
Others	6,683	24,089
Accrued Expenses		
Payroll	10,260	8,181
Other	(14,397)	
Interest and Penalties	19,035	19,035
Commissions	102,719	95,991
Taxes, other than Income	31,483	20,765
Total Current Liabilities	587,886	621,268
Long-term debt, net of current maturities	508,491	521,491
note payable to shareholder net of current maturities	7,701	7,701
Total Long Term Liabilities	516,192	529,192
Stockholders' equity-		
Common stock, \$.05 par value		
10,000,000 shares authorized,		
5,235,069 shares issued and outstanding	261,753	261,753
Capital contributed in excess of par value	1,198,273	1,198,273
Retained earnings (deficit)	(1,406,330)	(1,335,169)
Total Stockholder equity	53,696	124,857
Total liabilities and stockholders' equity	1,157,774	1,275,317

UNIVERSAL CERAMICS, INC.

STATEMENT OF INCOME

	Three Months Ended January 31,	
	1992 (unaudited)	1991 (unaudited)
Sales-net of discounts	265,792	548,642
Cost of goods sold	219,731	418,025
Gross profit	46,061	130,617
Selling, general and administrative expense	75,992	130,490
Income (loss) from operations	(29,931)	327
Other income and expense-		
Bad debts	2,637	5,558
Interest expense and loan cost amortization	13,097	24,950
Interest income	0	0
Miscellaneous income	(308)	(1,190)
Total	15,426	29,318
Income (loss) before taxes	(45,357)	(28,991)
Income tax expense	0	0
Net income (loss)	(45,357)	(28,991)
Earnings per share-		
Income (loss)	(.009)	(.006)

UNIVERSAL CERAMICS, INC.

STATEMENT OF INCOME

Six Months Ended January 31,

	1992 (unaudited)	1991 (unaudited)
Sales-net of discounts	565,662	1,120,012
Cost of goods sold	460,290	773,479
Gross profit	105,372	346,533
Selling, general and administrative expense	149,024	285,066
Income (loss) from operations	(43,652)	61,467
Other income and expense-		
Bad debts	5,668	10,656
Interest expense and loan cost amortization	23,911	42,126
Interest income	0	0
Miscellaneous income	(1925)	(3820)
Income (loss) before taxes	27,654 (71,306)	48,892 12,575
Income tax expense	0	0
Net income (loss)	(71,306)	12,575
Earnings per share-		
income (loss)	(.014)	.002

Universal Ceramics, Inc.

Statement of Cash Flow

For the Three Months Ended
January 31, 1992 January 31, 1991

Cash Flow From Operating
Activities:

Net Income	(\$45,357)	(\$28,991)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amor- tization	19,140	28,589
Provision for losses on Accounts Receivable	2,634	11,248
Changes in Assets and Liabilities:		
Decrease (inc) in accts. rec.	27,691	556
Decrease (inc) in inventory	2,985	21,316
Decrease (inc) in prepaid exp. and other assets	14,406	5,251
(Decrease) inc. in accts pay. and accrued expenses	87	(11,623)
Total Adjustments	66,943	55,337
Net cash (used in) provided by operating activities	\$21,586	\$26,346

Cash Flows from investing activities

Capital expenditures	1,646	(57,957)
Net cash (used in) investing activities	1,646	(57,957)

Cash flows from Financing Activities

Net borrowings under line of credit agreement		50,000
Principal payments on long-term debt	(24,207)	(20,429)
Net cash provided by (used in) financing activities	(24,207)	29,571

Net increase (dec) in cash	2,002	(2,040)
Cash at the beginning of the quarter	7,248	(7,276)
Cash at end of quarter	\$ 9,330	(9,226)

UNIVERSAL CERAMICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. In the opinion of the company, the accompanying unaudited financial statements contains all adjustments necessary to present fairly the financial position as of Jan. 31, 1991 and Jan. 31, 1992 and the results of operations for the three months ended January 31, 1992.

2. Inventories were comprised of the following items:

	Jan. 31, 1992	July 31, 1991
Finished goods	257,821	341,823
Work in process	114,498	107,514
Raw Materials	22,452	12,350
Supplies	45,155	61,281
	439,926	523,468

3. The results of operations for the three month period ended Jan. 31, 1992 reflects a decline in sales due to current economic conditions and a resumption of production to about half of capacity.
4. Earnings (loss) per common share is computed by adding the weighted average number of common shares outstanding and weighted average number of common stock equivalents (stock options) for the period.

UNIVERSAL CERAMICS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Financial Condition

The company's financial position for the period of November, Dec. 1991 and Jan. 1992, was greatly affected by the current economic condition of the building industry. Sales were approximately half that of the year before. Production was back up to about half of capacity. Sales are still slow but are improving. The company had to slow down payments on long term debts and accounts payable.

Results of Operations

The period-to-period changes in principal items show sales were at approximately 1/2 for the period, and the ratio of cost of sales to sales was not as good because of less than capacity production. The ratio of cost of sales to sales reflected a loss for the period.

Revenues

Sales during the three month period ended January 31, 1992 were below average.

Cost of goods sold and expenses

Plant operations, production and cost control measures continued. Every effort was made to keep all costs down.

PART II-Other Information

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

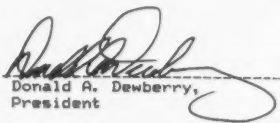
(a.) Exhibits: None.

(b.) Reports on Form 8-K: N/A

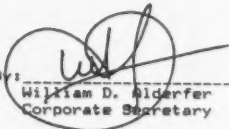
SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, this eighteenth day of February 26, 1992.

UNIVERSAL CERAMICS, INC.

By: 

Donald A. Dewberry,
President

By: 

William D. Alderfer
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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FORM 10-Q

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[X]

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-6662

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UNIVERSAL DYNAMICS, INC.

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of
Incorporation or organization)

54-0640047

(I.R.S. Employer Identification No.)

13600 Dabney Road, Woodbridge, Virginia 22194

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (703) 491-2191

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

YES [X] NO []

Indicate the number of shares outstanding of each of the Issuer's Classes of Common Stock as of the latest practicable date:

The number of shares outstanding of the Issuer's common stock, on January 31, 1992 was 1,755,837.

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UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS
ENDED JANUARY 31, 1992 AND 1991

Goldsmith & Platter, PA

Certified Public Accountants

111 Northfield Avenue - Suite 312 West Orange, New Jersey 07052
(201) 669-5700 Fax (201) 669-5875

Marc K. Goldsmith, CPA
Gerald Platter, CPA

To the Board of Directors
Universal Dynamics, Inc. and Subsidiaries
Woodbridge, Virginia

We have reviewed the accompanying consolidated balance sheets of Universal Dynamics, Inc. and Subsidiaries as of January 31, 1992 and July 31, 1991, and the related consolidated statements of income and retained earnings and cash flows for the three months and six months ended January 31, 1992 and 1991, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Universal Dynamics, Inc. and Subsidiaries.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The schedules accompanying the financial statements are presented only for supplemental analysis purposes applied in the reviews of the basic financial statements. We did not become aware of any material modifications that should be made to such data.

Goldsmith & Platter, PA

GOLDSMITH & PLATTER, PA
Certified Public Accountants

West Orange, New Jersey

February 21, 1992

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	January 31, <u>1992</u>	July 31, <u>1991</u>
--	----------------------------	-------------------------

ASSETS

CURRENT ASSETS

Cash	\$ 80,388	\$ 375,423
Accounts receivable	2,752,635	2,819,880
Notes and mortgages receivable - net (Note 2)	41,180	41,180
Other receivables	44,030	16,950
Inventories (Notes 1b and 3)	2,928,702	2,770,828
Prepaid expenses	<u>148,308</u>	<u>48,185</u>
Total current assets	<u>5,993,243</u>	<u>6,070,446</u>

PROPERTY, PLANT AND EQUIPMENT
(Notes 1c, 4, 5 and 6)

	<u>2,084,353</u>	<u>1,460,781</u>
--	------------------	------------------

OTHER ASSETS

Miscellaneous	<u>12,276</u>	<u>6,740</u>
	<u>12,276</u>	<u>6,740</u>
Total assets	<u>\$8,089,872</u>	<u>\$7,537,967</u>

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

January 31,
1992

July 31,
1991

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$1,495,195	\$1,214,850
Notes payable (Note 6)	250,000	0
Current portion of long-term debt (Note 5)	280,000	280,000
Customer deposits	759,924	365,056
Dividends payable (Note 13)	93,517	5,713
Mandatory redemption of preferred stock (Note 8)	13,500	13,600
Income and other taxes payable	10,768	101,362
Accrued expenses	<u>24,560</u>	<u>489,704</u>
Total current liabilities	<u>\$3,151,454</u>	<u>\$2,470,185</u>

NON-CURRENT LIABILITIES

Notes payable (Note 5)	653,333	816,667
Deferred income taxes	<u>105,216</u>	<u>105,216</u>
	<u>758,549</u>	<u>921,883</u>

STOCKHOLDERS' EQUITY

Cumulative preferred stock \$.01 par value redeemable 17,560 per annum at \$1.00 plus accrued dividends. 202,600 shares authorized, 13,500 issued and outstanding at January 31, 1992 and July 31, 1991 (Note 6).	0	0
Common stock \$.01 par value. 2,532,000 shares authorized, issued 1,755,837 and 1,757,907 at January 31, 1992 and July 31, 1991 respectively (Note 1f).	17,560	17,580
Capital in excess of par value	416,925	419,175
Retained earnings - appropriated (Note 7)	150,000	150,000
Retained earnings - unappropriated	<u>3,595,385</u>	<u>3,559,144</u>
	<u>4,179,890</u>	<u>4,145,899</u>
Total liabilities and stockholders' equity	<u>\$8,089,872</u>	<u>\$7,537,967</u>

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Three Months Ended January 31,		Six Months Ended January 31,	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
NET SALES	<u>\$3,597,734</u>	<u>\$3,499,051</u>	<u>\$7,168,119</u>	<u>\$6,843,863</u>
COST AND EXPENSES				
Cost sales	2,613,926	2,527,841	5,196,519	4,965,885
Selling, general and administrative expenses	779,015	769,363	1,562,154	1,454,123
Research and development expenses	92,542	71,009	175,490	78,538
Interest expense	<u>22,460</u>	<u>26,093</u>	<u>46,170</u>	<u>92,235</u>
Total cost and expenses	<u>3,507,943</u>	<u>3,403,306</u>	<u>6,980,332</u>	<u>6,590,781</u>
OPERATING INCOME	89,791	95,745	187,787	253,082
OTHER INCOME OR (EXPENSES) - Net	<u>12,816</u>	<u>6,146</u>	<u>12,861</u>	<u>(4,061)</u>
INCOME BEFORE INCOME TAXES	<u>102,607</u>	<u>101,891</u>	<u>200,648</u>	<u>249,021</u>
INCOME TAXES (Note 1)				
Federal	33,104	31,908	63,902	79,587
State	<u>6,580</u>	<u>6,342</u>	<u>12,701</u>	<u>14,441</u>
Total income taxes	<u>39,684</u>	<u>38,250</u>	<u>76,603</u>	<u>94,028</u>
NET INCOME	62,923	63,641	124,045	154,993
RETAINED EARNINGS				
Balance at beginning	<u>3,170,266</u>	<u>3,423,029</u>	<u>3,709,144</u>	<u>3,219,604</u>
Total	3,633,189	3,486,670	3,833,189	3,374,607
Less, dividends	<u>87,804</u>	<u>0</u>	<u>87,804</u>	<u>0</u>
Retained earnings at end	<u>\$3,745,385</u>	<u>\$3,486,670</u>	<u>\$3,745,385</u>	<u>\$3,374,607</u>
NET INCOME PER COMMON SHARE (Note 2)				
(1,766,837 and 1,797,407 shares outstanding at January 31, 1992, and January 31, 1991, respectively)	<u>\$0.04</u>	<u>\$0.04</u>	<u>\$0.07</u>	<u>\$0.09</u>

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended January 31,		Six Months Ended January 31,	
	<u>1992</u>	<u>1991</u>	<u>1992</u>	<u>1991</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 62,923	\$ 63,641	\$124,045	\$128,403
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	68,425	62,120	132,349	121,617
(Gain) loss on sale of property, plant and equipment	(8,000)	0	(8,000)	0
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(60,791)	106,230	67,245	653,488
Decrease (increase) in inventory	(165,796)	142,805	(155,874)	119,251
Decrease (increase) in prepaid expenses	(31,581)	52,564	(102,123)	99,184
Decrease (increase) in other current assets	(19,014)	(11,593)	(27,080)	(27,327)
Increase (decrease) in accounts payable and accrued expenses	509,367	(121,761)	343,465	(372,356)
Decrease (increase) in other assets	<u>(8,819)</u>	<u>167</u>	<u>(5,536)</u>	<u>332</u>
Net cash provided by (used) in operating activities	<u>346,714</u>	<u>294,173</u>	<u>368,491</u>	<u>722,592</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	8,000	0	8,000	0
Capital expenditures	(249,838)	(91,223)	(755,921)	(125,005)
(Increase) decrease in note and mortgage receivables	<u>0</u>	<u>325</u>	<u>0</u>	<u>625</u>
Net cash provided by (used) in investing activities	<u>(241,838)</u>	<u>(90,898)</u>	<u>(747,921)</u>	<u>(124,380)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings (payment) under line-of-credit agreement	0	0	250,000	(350,000)
Net borrowing (payment) of long-term debt and mortgages	(70,000)	(73,678)	(163,334)	(147,249)
Payment of dividend	0	0	0	(89,884)
Purchase and retirement of treasury stock	(71)	(100)	(2,271)	(100)
Redemption of preferred stock	<u>0</u>	<u>0</u>	<u>0</u>	<u>(292)</u>
Net cash provided by (used) in financing activities	<u>(70,071)</u>	<u>(73,778)</u>	<u>84,395</u>	<u>(587,525)</u>
NET INCREASE (DECREASE) IN CASH	34,805	129,497	(295,035)	10,687
CASH AT BEGINNING OF PERIOD	<u>45,583</u>	<u>82,537</u>	<u>376,423</u>	<u>201,347</u>
CASH AT END OF PERIOD (OVERDRAFT)	<u>\$ 80,388</u>	<u>\$212,034</u>	<u>\$ 80,388</u>	<u>\$212,034</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for interest	<u>\$ 22,480</u>	<u>\$ 35,093</u>	<u>\$ 46,170</u>	<u>\$ 76,759</u>
Cash paid for income taxes	<u>\$ 39,684</u>	<u>\$ 38,250</u>	<u>\$ 76,603</u>	<u>\$ 78,305</u>

See supplemental report and notes to financial statements.

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

(b) Inventories

Inventories are generally stated at the lower of cost (principally on the first-in, first-out basis) or market.

(c) Property, plant and equipment

Property is recorded at cost. Depreciation over the estimated useful lives or terms of the leases is determined principally on a straight-line or accelerated method. Renewals and betterments are capitalized; maintenance and repairs are charged to income as incurred. When assets are sold or retired, the general policy is to remove the cost of the asset and the related accumulated depreciation from the accounts. Any resultant gain or loss is credited or charged to earnings.

(d) Research and development costs

Research and development expenditures are charged against earnings the year in which such costs are incurred.

(e) Federal income taxes

The Company and its subsidiaries file a consolidated federal income tax return. Deferred income taxes are provided in amounts sufficient to give effect to timing differences between financial and tax reporting principally related to depreciation and installment sales of property. Tax credits are treated as a reduction of income taxes in the year in which the related assets are placed in service.

(f) Adjustments

The financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

(g) Net income per share

Net income per share of common stock has been computed by dividing net income, after provision for preferred stock dividends, by the weighted average number of shares of common stock outstanding during each year. The options and warrants are not considered to be common stock equivalents as they would have an antidilutive effect in both years.

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - NOTES AND MORTGAGES RECEIVABLE

On March 25, 1981, the Company sold property located in Scotch Plains, New Jersey for \$125,000. The Company took back a mortgage of \$100,000 bearing interest at the rate of 12 percent per annum, payable monthly at \$1,435 including interest. The payments began April 26, 1981 and end March 25, 1991. No payments have been received during the current year. However, management feels it is protected by a lien on the property sold. The Company has decided to proceed with legal action in collection of the mortgage.

NOTE 3 - INVENTORIES

	<u>January 31, 1992</u>	<u>July 31, 1991</u>
Raw materials	\$1,741,576	\$1,648,820
Work in progress	973,941	922,070
Finished goods	<u>211,186</u>	<u>199,938</u>
Total inventories	<u>\$2,926,702</u>	<u>\$2,770,828</u>

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

	<u>January 31, 1992</u>	<u>July 31, 1991</u>
Automobiles and trucks	\$ 166,901	\$ 166,901
Furniture and fixtures	741,358	716,748
Machinery and equipment	1,346,733	1,123,618
Building and improvements	1,518,658	1,010,462
Land	<u>271,686</u>	<u>271,686</u>
Total	4,035,336	3,270,416
Less, accumulated depreciation	<u>1,950,983</u>	<u>1,818,634</u>
Total property, plant and equipment	<u>\$2,084,353</u>	<u>\$1,460,781</u>

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTES PAYABLE DUE AFTER ONE YEAR

	January 31, <u>1992</u>	July 31, <u>1991</u>
Signet Bank, payable in monthly installments of \$23,334 plus interest at 1/2% over prime for 60 months. The loan is secured by plant and equipment owned by the Virginia Division including purchases of above in the future. Proceeds of the loan were used to retire other long-term debt and office expansions. The Bank requires certain performance ratios, profit levels and equity value that the Company has maintained as of July 31, 1991 and January 31, 1992.	<u>\$ 933,333</u>	<u>\$1,096,667</u>
Total	933,333	1,096,667
Less, current maturities	<u>280,000</u>	<u>280,000</u>
Total long-term debt	<u>\$ 653,333</u>	<u>\$ 816,667</u>

NOTE 6 - NOTE PAYABLE DUE WITHIN ONE YEAR

The Company may borrow amounts not to exceed \$1,000,000 on a line of credit at prime secured by plant and equipment owned by the Virginia Division. The Company has also secured an \$800,000 construction loan line of credit for the construction of a building.

NOTE 7 - CONTINGENCIES AND COMMITMENTS

As of January 1, 1986, the Company had purchased product liability insurance on currently manufactured products. The Company has appropriated \$150,000 of retained earnings as a reserve for future claims on previously manufactured products. At the present time, no additional claims have been asserted.

NOTE 8 - MANDATORY REDEMPTION OF PREFERRED STOCK

At January 31, 1992, there were authorized 202,600 shares of cumulative preferred stock, with \$0.1 par value, of which 13,500 shares were issued and outstanding. Dividends are cumulative and payable at the rate of \$0.05 per share per annum until December 31, 1974, and at a rate of \$0.06 per share per annum for each year thereafter. The preferred stock has a liquidation value of \$0.05 per share (aggregate liquidation value, \$6,004 minimum) in addition to any unpaid dividends. On January 31, 1992, 2,295 of cumulative dividends were in arrears, due to the difficulty of locating stockholders. Commencing February 15, 1972, the preferred stock is redeemable in whole or in part at the option of the Company at a rate of \$1.00 per share (aggregate redemption value, \$173,600). On or before February 15, 1976, and on or before each succeeding February 15, the Company must redeem 17,360 share (10 percent of original issuance). The preferred stock should have been redeemed by February 15, 1986 and therefore, the redemption has been classified as a current liability.

UNIVERSAL DYNAMICS, INC. and SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - ESTIMATED WARRANTY COST

The Company provides a warranty of one year on parts and labor for manufacturing and material defects on all units sold. The liability for estimated warranty costs is immaterial. It is the Company's policy to charge warranty expense to income as incurred.

NOTE 10 - PENSION PLANS

The Company maintains a discretionary Profit-Sharing Plan and a 401(K) Plan for which the Company matches 25% of employee contributions. All employees are eligible except for certain age and years of service restrictions.

NOTE 11 - RESTRICTIONS WHICH LIMIT THE PAYMENT OF DIVIDENDS

The Company has restricted \$150,000 of retained earnings as a reserve for future product liability claims on products manufactured prior to January 1, 1988. See Note 7. Also, the Company may not pay dividends in excess of 25% of net earnings under the terms required by bank borrowings.

NOTE 12 - MERGER OF SUBSIDIARIES

As of August, 1991, the Company merged all of its subsidiaries into Universal Dynamics, Inc., a Virginia Corporation.

NOTE 13 - DIVIDEND PAYABLE

On January 13, 1992, the Company declared a dividend of \$.05 per share to common shareholders of record as of January 31, 1992. The total dividend, in the amount of \$ 87,804, was paid on February 14, 1992.

See accountants' report.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Results of Operations:

Revenues for the three month period ended January 31, 1992 increased by \$98,683, or approximately 3 percent, for the comparable period in the preceding fiscal year, principally as a result of an enhanced product line being available to customers. Total cost of sales as a percentage of revenues was 72.7 percent for the three month period ended January 31, 1992 compared to 72.2 percent for the three month period ended January 31, 1991. Labor costs increased approximately 9.8 percent, principally due to increased shipments and increased work in progress.

Selling, general and administrative costs for the three month period ended January 31, 1992, increased approximately 1.2 percent from the comparable period in the preceding fiscal year. Research and development expenses increased approximately 30.3 percent for the three month period ending January 31, 1992 as compared to the same period in the preceding fiscal year, as a result of the development of new products. As a result of the foregoing, net income for the three months ended January 31, 1992 decreased approximately 1.1 percent from the comparable period in the preceding fiscal year.

Liquidity and Capital Resources:

The company's long term debt decreased from \$1,253,333 at October 31, 1991 to \$1,183,333 at January 31, 1992, as a result of the company's ongoing repayment of its debt. The Company believes that its available working capital and the anticipated cash flow from operations and available lines of credit will be sufficient to fund its working capital needs and presently contemplated capital investments for at least one year.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a) Exhibit: No documentation of the Registrant qualified under the requirements of Regulation S-K Item 601 to be filed as an exhibit to this report.

b) Reports on Form 8-K: No reports on Form 8-K were filed during this quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL DYNAMICS, INC.
(Registrant)



Beverly Giroux
Vice President
Chief Financial Officer

Date: March 23, 1992

UNIVERSAL DYNAMICS, INC. AND SUBSIDIARIES
JANUARY 31, 1992 QUARTERLY REPORT ON FORM 10-Q

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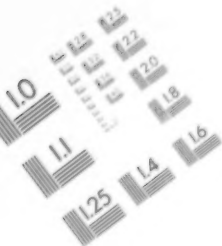
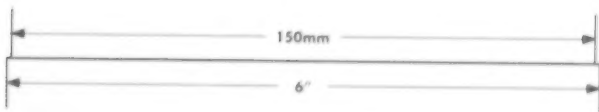
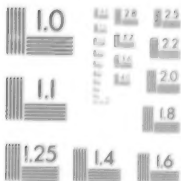
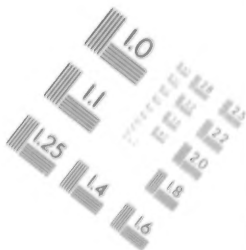


IMAGE EVALUATION TEST TARGET (MT-3)



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